AARP FOUNDATION TAX-AIDE

CALIFORNIA

COUNSELOR REFERENCE MANUAL

(CRM)

For TaxWise Online

TAX YEAR 2014

Prepared by the AARP Foundation Tax-Aide CA Training Committee
The CRM can be ordered from the Franchise Tax Board
The CRM can also be found at http://www.ftb.ca.gov/individuals/vita/index.shtml
And at Tax-Aide for CA-2 http://aarpca2.org/forum

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ESSENTIAL INFORMATION

Where to Mail Returns and Payments

What	Internal Revenue Service	CA Franchise Tax Board
Electronic filing with balance due (mail payment & voucher ONLY)	Internal Revenue Service P.O. Box 7704 San Francisco, CA 94120-7704 (form 1040V)	Franchise Tax Board P.O. Box 942867 Sacramento, CA 94267-0008 (form 3582)
Paper return with balance due (mail signed return and payment)	Internal Revenue Service P.O. Box 7704 San Francisco, CA 94120-7704 (1040 with 1040V and payment)	Franchise Tax Board P.O. Box 942867 Sacramento, CA94267-0001 (CA 540 with payment)
Paper return with nothing due or refund (mail signed return)	Department of the Treasury Internal Revenue Service Fresno, CA 93888-0002 (1040)	Franchise Tax Board P.O. Box 942840 Sacramento, CA94240-0001 (CA 540)
Amended return with balance due (paper filing) (mail signed return and payment)	Department of the Treasury Internal Revenue Service Fresno, CA 93888-0422 (1040X with 1040V and payment)	Franchise Tax Board P.O. Box 942867 Sacramento, CA94267-0001 (CA 540X with payment)
Amended return with nothing due or refund (paper filing) (mail signed return)	Department of the Treasury Internal Revenue Service Fresno, CA 93888-0422 (1040X)	Franchise Tax Board P.O. Box 942840 Sacramento, CA94240-0001 (CA 540X)
Estimated payments (mail payment and voucher)	Internal Revenue Service P.O. Box 510000 San Francisco, CA 94151-5100 (form 1040ES)	Franchise Tax Board P.O. Box 942867 Sacramento, CA 94267-0008 (form CA 540ES)
Automatic six month extension – no payment (mail form)	Department of the Treasury Internal Revenue Service Fresno, CA 93888-0045 (form 4868)	Nothing to file
Automatic six month extension – with payment (mail form and payment)	Internal Revenue Service P.O. Box 7122 San Francisco, CA 94120-7122 (form 4868 with payment)	Franchise Tax Board P.O. Box 942867 Sacramento, CA 94267-0008 (form CA 3519 with payment)
Response to CP2000 letter	Mail to address specified in letter with 1040X if needed, documentation and any payment required.	

Internal Revenue Service & Franchise Tax Board Toll Free Numbers

****Do not share Volunteer Hotline numbers with taxpayers****

IRS NUMBERS		FTB NUMBERS	
M-F 6am to 5:30pm, Sat 6am to 2pm, PST		M-F 8am to 4:00pm PST	
Volunteer Hotline	**800-829-8482**	**Volunteer Hotline**	**800-522-5665**
Tax Information	800-829-1040	Volunteer Coordinator	916-845-6237
Automated Refund Info	800-829-1954	General Number	800-852-5711
Tax Forms & Publications	800-829-3676	Automated Service	800-338-0505
ID Protection Specialized Unit	800-908-4490	ID Theft Resolution Coordinator*	916-845-3669

* ***CA Note:*** Paper file for California. The FTB will contact the taxpayer regarding discrepancies. The CA ID Theft Resolution Coordinator should be contacted only after a federal ID theft case has been set up.

TaxWise

TaxWise (CCH) 1-800-411-6391 M-F 4:30am to 9:00 pm PST, Sat 5:30 to 3:00, Sun 10:00am-1:00pm TaxWise has a Knowledgebase that can be consulted for commonly asked questions

Reporting Lost or Stolen Equipment

In the event that the laptop computer in your custody is lost or stolen, you must report the loss/theft to your local coordinator AND AARP National Office 800-424-2277, ext. 6021 or 6027

AARP Volunteer Information

- AARP Foundation Tax-Aide counselors should NOT act on information contained in "IRS Quality Alerts." Tax-Aide will redistribute relevant alerts as CyberTax messages, which are automatically sent to all Tax-Aide volunteers with an email address in VMIS
- Volunteering with AARP Foundation Tax-Aide - direct interested persons to www.aarp.org/taxaide, 888-687-2277, or put them in contact with your district or local coordinator
- AARP programs - Reverse Mortgages, Senior Community Service, Money Management, etc. direct to www.aarp.org or 202-434-2044
- Donations: Tax-Aide counselors cannot accept money
  - Donors can send a donation to AARP Foundation/Tax-Aide Program, 601 E Street, NW, B4-640, Washington DC 20049 – put "Tax-Aide – CA" on the memo line of the check!

WHAT TAX-AIDE CAN AND CANNOT DO

The AARP Foundation Tax-Aide Program is limited in scope. Our Mission is to provide high-quality free income tax assistance and tax form preparation to low and moderate-income taxpayers, with special attention to those ages 60 and older. All references to "Tax-Aide" are specifically to AARP Foundation Tax-Aide.

The NTTC publishes a comprehensive list of in-scope and out-of-scope forms which can be downloaded from Volunteer ShareNet>TaxLaw Training>Site and Volunteers>AARP Tax-Aide Scope Manual. Each site should have a printout or electronic version of this document for reference.

- Regardless of training and/or certification, if a counselor is not confident in their knowledge of forms and issues relating to a client's return, the return will not be prepared by that counselor
- When volunteers are not certain that a complete and accurate return can be prepared, clients will be referred to either another counselor or site or a paid preparer
- California resident tax returns can and should be prepared along with the federal tax return
- Part-year or non-resident California returns will not be prepared, with the exception of authorized volunteers in the Tax-Aide National State Tax Assistance Program
- Federal or California returns that require income-splitting will **not** be prepared, e.g. MFS (see limited exception for Married Filing Separately below), RDP, or innocent spouse claims

State of California forms and Schedules we **can** prepare (with associated worksheets)

- 540 California Resident Income Tax Return
- Sch A CA Itemized Deductions
- Sch C CA Business profit or loss
- Sch CA Adjustments to Income
- Sch D CA Capital Gain or Loss adjustment
- Sch P Page 2, Section B1 – certain credits
- 540-ES Estimated Income Tax Payments
- 540-V Payment Voucher (for paper returns)
- 540-X Amended California Income Tax return
- Sch W-2 Wage and Withholding Summary (not needed for e-filed returns)
- Rent worksheet Non-Refundable Renters Credit
- 3506 Non-Refundable Child Care Credit
- 3519 Extension Payment Voucher (only if payment is due)
- 3567 Installment Agreement Request
- 3582 Payment Voucher (for E-filed returns)
- 3805P Additional Taxes on Early Distributions (Part I only)
- 4803e Head of Household Schedule
- 5805 Underpayment of Estimated Tax (only to eliminate penalty)
- CA 8879 E-file Signature Authorization

What is out-of scope? – **Everything Else** – The following are **some of the out of scope items**:

- Any return that is not an individual return.
- State returns for part year residents or nonresidents (540 NR) or state returns for a state other than CA, with the exception of authorized volunteers in the Tax-Aide National State Tax Assistance Program

When we cannot do the state return, we should refer the client to a paid preparer for BOTH the federal and state returns

TAXWISE ONLINE PROCEDURES

START OF SHIFT

- Check with the LC or ERO regarding the network status. If your site equipment is hard-wired:
  - All network cables must be attached
  - The router and/or network switch(es) should be turned on and operational before any workstation is turned on – only then turn on your computer
  - First the printer and then the print server computer (the laptop to which the printer is attached), if used, must be turned on
  - The network printer (the printer connected to the router), if used, must be attached to the router and the router and printer turned on;
- The wireless printer, if used, should be turned on
- Verify you can connect to the Internet
- Follow your LC's direction on how to open TWO
  - If necessary open Internet Explorer (IE) and go to URL https://twonline.taxwise.com
  - Log in to TaxWise Online with your site's ClientID and your Username and Password
- Maximize the screen (click the box at upper right) then press the **F11** key to maximize the IE window by hiding the Windows toolbars (pressing **F11** again will toggle the toolbars back on)
- Turn on **Caps Lock** on your keyboard

SHUTDOWN PROCEDURES

- Logout of TWO by clicking the **Logout** link at the far right of the TWO Toolbar

Follow the proper procedures for shutting down the laptops – do not just pull the power and close the lid! Doing so runs the battery down to zero and adds extra boot-up time for the next user

- Shut down the computer using the appropriate Windows commands
- Wait until the screen turns completely black and the power switch goes dark before pulling power plug and closing lid
- When the power plug is pulled, ALL lights on the keyboard should go out
  - If they don't, you have not shut down properly
- Replace laptop, power cord, mouse and mouse pad in laptop case making sure the computer's identifying number matches the number on the case
- Shut down the printer(s) and return to box(es), along with extra printer paper and instruction manual
- Turn off/unplug router and/or switches and store them along with the cables

KEYBOARD SCREENS, ETC.

Privileges

- Counselors may assume different roles in TWO based on the security settings established by the TWO Administrator
- There are 7 roles: Admin, SuperUser, ReturnPreparer, Template Manager, Interviewer, Reviewer, and E-file Manager
- The majority of counselors will be assigned the ReturnPreparer role
- The roles and Toolbar choices available for roles are outlined in the following table (only the most common roles are listed – for other roles, refer to the TWO User Manual):

Tasks that can be done via Toolbar Icons	Interviewer	ReturnPreparer	SuperUser	Reviewer
Start a New Return	Yes	Yes	Yes	Yes
Open Return	Your own	Your own	All	All
Submit e-files	No	No	Yes	No
View Acks [1]	No	No	Yes	Yes
Create Client Letters [2]	No	No	No	No
Create Return Templates [2]	No	No	No	No
Lock field on a Template [4]	No	No	No	No
Return Query	Your own	Your own	All	All
TWO Reports	No	No	Yes	No
Reports Server	No	No	Yes	No
Change Program Settings [3]	Subset	Subset	Subset	Subset
Manage Users [2]	No	No	No	No
Print Checks	N/A	N/A	N/A	N/A
TaxWise University	Yes	Yes	Yes	Yes
Live Chat (Tech Support)	Yes	Yes	Yes	Yes
Help	Yes	Yes	Yes	Yes
Blog	Yes	Yes	Yes	Yes
Hot Topics	Yes	Yes	Yes	Yes
Logout	Yes	Yes	Yes	Yes

[1] Acknowledgment file showing accepted, duplicated or rejected returns
[2] Only the Administrator or counselor with Administrator privileges can accomplish these functions
Only the Admin user can edit the Admin username properties
[3] Only the Administrator or counselor with Administrator privileges has full access to all Program Settings
[4] Only the Admin user can accomplish this function

Entering Data

- TaxWise has a number of ways to perform a function; you need to decide which is most convenient for you (e.g. using the mouse versus a navigation key versus an icon)
- Tax-Aide uses TaxWise as a forms-based package (an Interview mode is available but should not be used as it creates unused forms that can impede e-filing)
- You first complete the *Main Info* sheet based on the Intake/Interview Sheet, last year's return and/or the carry forward information – the necessary information about the taxpayer(s) and any dependents flows to the individual forms from the *Main Info* sheet
- Then complete each of the forms based on the information that the taxpayer(s) provides you by selecting the form from the Tree
- Enter all dates in the format mmddyyyy (note, four digit years) - TaxWise will insert the slashes
- Amounts can be entered with or without cents
  - If rounding is difficult, it is better to enter the cents value and let TaxWise do the rounding
- The general rule is to NOT use any punctuation, double spaces, or dashes; however, there are limited exceptions
  - Double spaces create a diagnostic error that is hard to find
- When a pick list of values is available for a field, highlight the field and click the drop down arrow to display the list and then click on the desired value
  - Verify that result is as desired
- Linking is accomplished by using the **F9** key or clicking on the icon to the right of the field and clicking the existing or new tab, as applicable, and then the form you want
- Insert/Delete rows is accomplished by clicking in the row to be deleted/added and pressing **CTRL+I** or **CTRL+R**, respectively
- The cursor can be located by noting the darker shade of gray in the field
- Understanding the colors of the fields in TaxWise is important. The colors are either of the two following and available to all users

- With High Contrast Color Scheme (in the TWO Toolbar: Settings > Display > Use High Contrast Color Scheme)
  - **Yellow** – calculated entries or linked to another form
  - **Light gray** – non-calculated entries
  - **Dark blue** – overridden entries
  - **Orange with (double) red underline** – required entry or validation
  - **Solid red** – data entry error
- Without High Contrast Color Scheme
  - **Light gray with green underline** – calculated entries or linked to another form
  - **Light gray with black underline** – non-calculated entries
  - **Light gray with blue underline** – overridden entries
  - **Light gray with red underline** – required entry or validation

- When a field or button has been designated as entry required or validation required, it may be necessary to remove the estimation (clear the red first) then enter the appropriate data
- Use **F3** or **CTRL+Spacebar** to remove the red

KEYBOARD SHORTCUTS

The following table describes the use of Function keys and Shortcut keys in TWO:

Command	Description
F1	Program Help in a new browser tab
Shift+F1	Program Help in a new browser window
F3 or **Ctrl+Spacebar**	Toggles the Red on and off in a field (Required/Not Required)
F8 or **Ctrl+Enter**	Toggles Override *
F9	Links a field to associated form
F11	Minimizes/maximizes Internet Explorer display
Ctrl+E	Jumps to next required entry
Ctrl+I	Inserts a row
Ctrl+R	Removes row on multi-line stmt or wkt When not on a line, refreshes the page
Alt+Lg"+" (to the right of the 10-key pad)	When in a numeric input field, brings up calculator
Ctrl+L	Locks a template entry (Admin only)

Moving around on forms

Ctrl+E	Next required (red) entry
Enter or **Tab**	Next entry
Shift+Tab	Previous entry
Home or **Ctrl+UpArrow**	First character in entry
End or **Ctrl+DnArrow**	Last character in entry
Ctrl+PageDown	Next form in Tree
Ctrl+PageUp	Previous form in Tree

Useful Windows shortcuts (not specific to TWO):

Ctrl+C	Copies a highlighted selection
Ctrl+X	Cuts a highlighted selection
Ctrl+V	Pastes the selection at the mouse cursor point

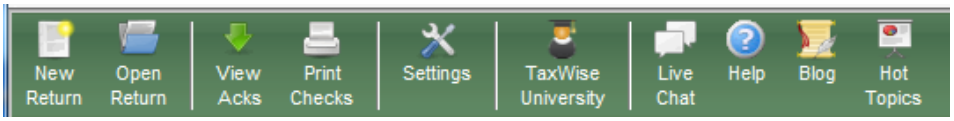
- * Not all users will be able to override – the Administrator has the capability to prevent users from overriding. The standard setting for ReturnPreparer users is to not allow overriding
- Normally, move around forms in TWO is with the **Tab** key, mouse pointer, or the **Enter** key
  - **PgUp** and **PgDown** keys scroll with a form
  - The scroll bar on the right-hand side of the form can also be used in a form
- Note that the link icon next to certain fields provides functionality based on the field that you are in. From left to right the choices are:
  - **Link choices** – provides list of Existing or New links that can be created for this field

- **Estimated** – provides a toggle to make the field required/non-required
- **Calculator** – provides a calculator for this field
- **?** – provides context sensitive help for this field

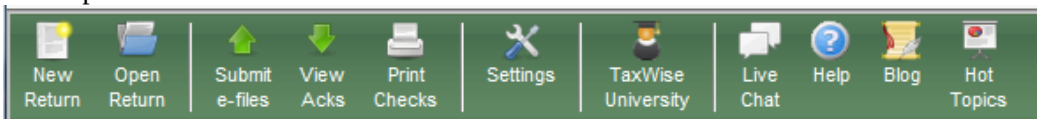
TOOLBARS

- The TWO Toolbar icons are dependent on the context that you are using, e.g., you will get one set of icons if you are not in a return and another set if you are in a return. It is also dependent on the role you are assigned, e.g., Administrator, Return Preparer, etc. These roles were described, earlier
- The following Toolbars are available in TWO for the most common user roles. Refer to the TWO User Manual for other roles. In most cases, the icons are self-evident. The Settings and icons at the right-hand side of the Toolbar when not in a return do the following:
  - Settings – allows the user to make screen display settings
  - Live Chat – lets you participate in a chat with a TaxWise support person – do not use Live Chat unless you have first checked with your LC
  - Help – takes you to the Help Center page
  - Blog – takes you to the TaxWise blog on the Internet
  - Hot Topics – takes you to the TaxWise Support Site
- COUNSELOR NOT IN A RETURN
  - ***Note:*** screen shots below are from the TWO current year training site. The current year's production site will have a blue background. Prior year production sites will have different color backgrounds (burgundy or brown).
  - ReturnPreparer or Interviewer

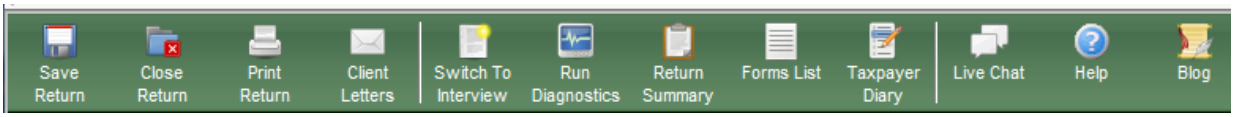
  - Reviewer



  - SuperUser



- COUNSELOR IN A RETURN
  - All Roles



- Client Letters – allows you to select the Client Letter to print for the return (if set up)
- Return Summary – monitors key filing status, e-filing status, federal and state return data
- Forms List – displays a list of forms that can be added to the return

SCREEN LAYOUT

Left Panel

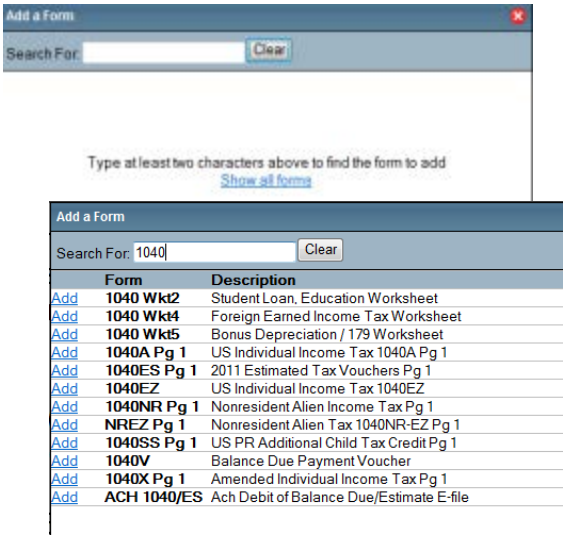
- Refund Monitor – if activated, indicates federal AGI and refunds/amounts owed on current return
  - Turn on/off by clicking the double caret in the Refund Monitor title bar
  - Clicking on the Check Return Status link will open a window with the Return Summary
- Functions at or below the Loaded Forms title bar
  - Left and right green arrows next to Loaded Forms – allows you to move up or down in the Tree
  - Add – adds a new form to the Tree and the work area
    - This is the same as clicking Forms List on the toolbar
  - Print Form – displays a list of all forms in the current return and allows you to print one form

  - Delete – displays a list of forms in the current return and allows you delete one
- Loaded Forms (Tree)
  - Turn on/off by clicking the double left-right arrowheads at the top, between the left panel and the main working area
  - Highlights the form currently in the Work Area on the right side of the screen
  - Provides listing of forms that have been pre-loaded and added
  - Identifies status of forms listed:
    - Yellow exclamation mark and form name is red - form is incomplete
    - Green check mark and form number is green - form is complete
    - Blank - form available in Tree, but not necessarily required
- Use caution as not all forms will be visible; use the scroll bar to move down/up the Tree
- "+" and "×" next to a form
  - Clicking "+" allows you to add another copy of an existing form to the Tree
  - Clicking "×" allows you to delete the form (use with caution)

Right Panel - TaxWise Work Area

- Displays the current form (which is also highlighted in the Tree)
- Context sensitive help for the form and/or field is activated by clicking the arrowhead on the right of the field

ADDITIONAL FORMS


Add a Form
Search For:
Clear
Type at least two characters above to find the form to add
Show all forms
Add a Form
Search For: 1040
Clear
Form
Description
Add 1040 Wkt2 Student Loan, Education Worksheet
Add 1040 Wkt4 Foreign Earned Income Tax Worksheet
Add 1040 Wkt5 Bonus Depreciation / 179 Worksheet
Add 1040A Pg 1 US Individual Income Tax 1040A Pg 1
Add 1040ES Pg 1 2011 Estimated Tax Vouchers Pg 1
Add 1040EZ US Individual Income Tax 1040EZ
Add 1040NR Pg 1 Nonresident Alien Income Tax Pg 1
Add NREZ Pg 1 Nonresident Alien Tax 1040NR-EZ Pg 1
Add 1040SS Pg 1 US PR Additional Child Tax Credit Pg 1
Add 1040V Balance Due Payment Voucher
Add 1040X Pg 1 Amended Individual Income Tax Pg 1
Add ACH 1040/ES Ach Debit of Balance Due/Estimate E-file

- All normally required forms have been preloaded on the Tree – look there first if a form is needed
- Additional Forms may be accessed in any of three ways:
  - By clicking on the Forms List icon on the toolbar
  - By clicking on the Add icon in the Tree title bar
  - By clicking on the "+" in the forms Tree next to the form you wish to add
- The first two methods open a search box that lets you enter part of the name of a form. The result will then be a list of forms that contain the phrase typed. For instance, typing "1040" will display Form 1040, Form 1040A, Form 1040 Worksheets, etc.
- Or, you can click the "Show all forms" link to display all forms
- As forms are loaded, they are also added to the Tree
  - If left unused when the return is closed, an added form will be deleted from the Tree and may need to be re-added

HELP

TaxWise Online has several help features

- The Context Help can be accessed as described before, by clicking the arrow head to the right of the field for which you require help
- General program help can be accessed by clicking the Help icon on the Toolbar
  - Takes you to the Help Center where you can access a variety of help resources, e.g., Program Help, State Help, User Guide, IRS and State forms and publications, business codes, etc.
  - To get back to the return you were creating, close the Help Center browser tab or click the TWO browser tab
- ***CA Note:*** For help with the CA package, click the Help icon > State Help > California

CONFUSING SITUATIONS IN TAXWISE ONLINE

Linking from a yellow field with a default form

Some fields may be linked to another form by default (e.g. *Sch C L 1* is linked to *1099 MISC* by default). If you need to link to a *Scratch Pad*, you must link by clicking the arrowhead on the right side of the form and then selecting the *Scratch Pad*. It is not necessary to remove an existing link before adding a new one.

Field is yellow resulting from linking in error

Follow the link to the form and delete it by clicking the "×" next to the form in the Tree
Close the return and re-open it to restore the field to its pre-error condition

Taxable Income but nothing below line 43 on 1040 page 2

If the capital gain and qualified dividends taxed at zero rate are greater than the taxable income shown on line 43, all the following entries may be zero, and zero is not printed

Unintentional Override

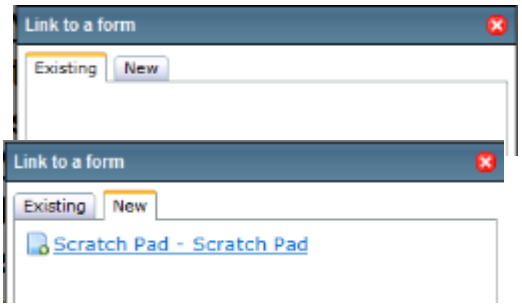
If you make an entry in a field, and then link from that field, the field is automatically overridden and the original entry will remain - the link entries from the subordinate form will not show. As a ReturnPreparer, you will have to get help from a user with a role that allows them to un-override that entry, e.g., a SuperUser or Reviewer. Your site manager can identify those counselors

Interest/Dividend worksheet

Before making an entry you must tab once to get to the first field or click in the first field

Linking

When you link to a form, you may not see any forms to link to in the dialog box. That is because you are on the wrong tab – there is an **Existing** tab and a **New** tab. If the form hasn't been preloaded you will have to click the **New** tab. If you want to go to an existing form, you will have to click the **Existing** tab



REFERENCE MATERIAL

- Clicking on the Help icon or pressing **F1** while in a return takes you to the TWO Help Center. There, you'll find numerous links to program help, TaxWise support, reference materials, IRS and state websites, etc.
- To get back to the return, close the help center browser tab

RESEARCH A TOPIC

Steps to follow in researching a topic

- Question the client thoroughly to ascertain all pertinent facts while reviewing their Intake/Interview sheet and tax forms
- Begin your research by using Pub 4012, which provides quick access to most common questions in a format with which we are familiar
- Consult the instructions to the form (Help Center > IRS Forms) (Help Center > State Tax Sites)
- Consult Pub 17 – use a key word search in the electronic version or, in the paper version, start in the index looking under a main heading first and then a subheading. You will find that you will be able to locate information more readily if you become familiar with the topics covered
- If not found, check with a more experienced counselor
- Use Volunteer Hotlines listed on Page 1
- California Pubs:
  - 1001 Supplemental Guidelines to California Adjustments
  - 1005 Pension and Annuity Guidelines
- Peruse each CyberTax bulletin as it is received so that you are familiar with its content
- Make notations on your copies of reference materials or file updates as quickly as possible
- In addition there are web sites that have useful information:

Tax Preparation Assistance Sites	
To locate tax basis: Historical Stock Quotes (Big Charts) Stock Information and Historical Quotes	 http://bigcharts.marketwatch.com/historical/ http://finance.yahoo.com/
List of qualified charities	http://www.irs.gov/Charities-&-Non-Profits or Pub 78
Salvation Army –donation value estimates	http://www.satruck.com/donation-value-guide

Tax Preparation Assistance Sites	
All States Public Records Search – Useful for real estate taxes paid for other counties as well as State and County information	http://publicrecords.onlinesearches.com/
Education credits: searchable database of all accredited schools	https://fafsa.ed.gov/FAFSA/app/schoolSearch?locale=en_EN
Simplified method calculator for pensions	http://aarp.bogarthome.net/Annuity-Pension%20Calculator.htm
IRS Web Site – Publications, forms, and answers to tax questions	http://www.irs.gov/
Franchise Tax Board (State of California) Web Site – Publications, forms, and answers to questions myFTB -- Get information on estimated tax payments made, balance due, CA wage and withholding information (requires prior year's state tax information to register for a CSN)	http://www.ftb.ca.gov/
Board of Equalization – Sales tax rate information	http://www.boe.ca.gov/sutax/pam71.htm

STEPS IN TAX RETURN PREPARATION

INTERVIEWING THE CLIENT

- Review the Client's Intake/Interview & Quality Review sheet
- Explain the tax preparation process
- Confirm information provided by the client on the Intake/Interview sheet
  - Complete the dependent information on page 1 as applicable
  - Complete the health insurance information on page 3
- Get client to provide any information that they might have missed on the Intake sheet and write down on the Intake sheet
- Review all supporting documentation, e.g. social security cards, identification, W-2, 1099, etc.
- Make sure that taxpayer isn't expecting any additional documentation, e.g. 1099-INT, 1099-DIV, 1099-B, brokerage statement
- Review last year's return (if available)
- Confirm that no item is out of scope

ORGANIZING YOUR WORK

- While or after interviewing the client, sort all supporting documents by type in the following sequence:

Supporting Document	Enter in TWO Form
Last year's tax return	*Main Info*
Social Security Cards, ID card	*Main Info*
Income	
W-2s – wages	*W2*
1098-T Taxable Scholarship	*1040 Wkt1* (after all other input)
Broker Statement	*Interest Stmt, Dividend Stmt, 1116, Cap Gn Wkt, Sch D* - if all bases reported to IRS
1099-INT – interest	*Interest Stmt*
K-1 interest or dividends and Funeral Plans	*Interest Stmt, Dividend Stmt, 1116*
1099-DIV – dividends	*Dividend Stmt*
1099-DIV – foreign tax paid	*1116* or *1040 Pg 2 L 47*
1099-G State Tax Refund postcard	Link from *1040 Pg 1 L10* to *State Tax Refund*
Alimony Received	*1040, Page 1 L 11*
1099-MISC box 3/7 – non-employee income (Business Income)	Link from *Sch C Pg 1 L 1* to *1099 MISC*

Supporting Document	Enter in TWO Form
1099-MISC box 3/7 – non-business Income	Link from *1040 Wkt7 L 2* to *1099 MISC*
1099-MISC box 2 – own service-related royalties	Link from *Sch C Pg 1 L 1* to *1099 MISC*
1099-MISC Box 2 non-service related royalties	Link from *Sch E Pg 1 L 4* to *1099 MISC*
1099-B Stock sales	*Cap Gn Wkt, Sch D* - if all bases reported to IRS
1099-S Sale of home	*Cap Gn Wkt*
K-1 capital gain or loss	*Sch D Pg 1 L 5* (short-term) or *L 12* (long-term)
1099-R /RRB 1099-R(green), IRA /Pensions	*1099R*
1099-G Unemployment benefits	*1099G*
SSA 1099 Social Security	*1040 Wkt1*
RRB 1099 (blue) Railroad Retirement tier 1	*1040 Wkt1*
1099-MISC Box 1 rent	Link from *Sch E Pg 1 L 3* to *1099 MISC*
K-1 royalty income	*Sch E Pg 1 L 3*
W-2G Gambling Winnings	*W2G*
1099-LTC	*8853 Pg 2*
Adjustments	
Alimony Paid-canceled checks	*1040 Pg 1 L 31*
IRA contribution	*IRA Wkt*
Lender Statement Student Loan Interest	*1040 Wkt2*
Itemized Deductions/Credits	
Medical and Charitable Deductions list	*A Detail*
Property tax bill, car registration	*Sch A*
1098 Mortgage interest	*Sch A*
1098-T Tuition Statement	*8863 Pg 2, 1040 Wkt1, 1040 Wkt2, Sch* A - maybe, *Sch C* - maybe
Payments and miscellaneous	
Canceled checks estimates paid	*F/S Tax Pd*
1095-A Health Insurance Marketplace Statement	*8962* or *8965*
Any other papers the client brings	Various

STARTING A NEW RETURN

- Click the New Return icon on the Toolbar
- The Create New Return dialog box will appear.
- Enter and confirm the primary SSN for the tax return
- If carryforward data exists for the social security number from last year's return, a Create New Return dialog box will appear that notes prior year data exists and giving you the options to Use Carry Forward or Create New Return. You would normally Use Carry Forward
- **Enter** or click the Go to Tax Forms button
- The following are acceptable by Tax-Aide as social security number verification used in conjunction with a picture ID:
  - Social Security Card
    Note: The Social Security Administration may issue a card with the notation "VALID FOR WORK ONLY WITH DHS AUTHORIZATION" – this is a valid social security
  - Social Security Benefit Statement Form 1099-SSA or RRB-1099
  - A letter from the Social Security Administration
  - An IRS letter or card assigning an ITIN
- Interview mode option - ***do NOT use for real returns***
  - This is available, but should never be used for real returns. However it may be used for training
  - In this mode, you will be led through a series of questions, that when answered will populate the *Main Info* sheet and other input forms
  - To access the Interview mode, check the box Start Return in Interview Mode on the Enter SSN screen
  - You can switch between Interview and Tax Forms mode by clicking the icon on the Toolbar

DATA CARRYFORWARD

- Carry forward data may exist if last year's tax return was prepared by the local Tax-Aide site
  - Enter the taxpayer's Social Security Number as prompted

  - A choice will pop up to Carryforward Data from last year's return
- Be sure to review any comments on the bottom of the *Main Info* sheet, the *Prep Use* form or the Taxpayer Diary
  - Update or remove comments as needed
- Data entry will be simplified as the return will be populated with information such as names, dates of birth, telephone numbers, W-2s, 1099s, payers of interest and dividends, etc. from last year's return
- Only a few dollar amounts (such as federal capital loss carryovers, prior years' *Summary* form data, and *1099R* Simplified Method) are populated
- All other dollar amounts must be entered from the current year tax documents
- The key fields that are carried over will be red, as a reminder that you must review the information with the taxpayer, either confirming that they are still accurate (use **F3** or **Ctrl+Spacebar** to remove the red) or updating them as needed
- You will need to remove and/or add forms as appropriate (e.g. the taxpayer changed employers and hence received a different W-2, in which case you must delete the *W2* for the previous employer and add a *W2* for the new employer)
- You may also need to delete lines (rows) from a schedule (e.g. a dependent is no longer to be included in the return or interest was not received from a payer used in the prior year)
- While data carryforward makes completion of the return much faster and more accurate, you need to check the return carefully to ensure that any year-to-year changes have been reflected and that unused entries or forms are not included in the new return. Otherwise the sequence of actions to complete the return is the same as though you are doing the return without data carryforward
- It is suggested that the Intake and Interview sheet be marked to note that data was carried forward
  - If there are changes in spouse or dependents (or ITIN changed to SSN), make a notation so the reviewer can look at the new or changed cards

MAIN INFO SHEET

- Enter all pertinent information; if data carryforward is being used, use **F3** to clear the red after confirming the information is correct for this year
- Do not use any punctuation except as noted
  - Commas, ampersands, slashes and periods are not allowed
  - Double spaces are not allowed

Name field

There are four Name fields:

- Salutation field is optional – Mr, Ms, etc. or leave blank (recommended)
- Enter Taxpayer's first name(s), initial and last name as shown on the social security card
  - For returns with carry forward data, use the name as entered and successfully filed last year, unless a change is required, e.g. new name
- When the return is e-filed, the first check is that the first four characters of the last name match the IRS' records
  - When the social security card indicates multiple names, enter all but the last in the first name field, leaving a space between each name (e.g. SAM HUNTER ALBERT)
  - For some Hispanic names, the last two names may constitute the legal last name, in which case they should both be entered in the last name field
  - It is good practice to enter questionable names as shown on the social security card or ITIN letter in the free-form note field at the bottom of the *Main Info* sheet for use by the ERO in case the name rejects
  - Refer to examples in Pub 4012 starting on page C-16
- Enter the spouse's first name and initial for MFJ only
- Enter the spouse's last name only if it is different than the primary taxpayer's
- Once the spouse's name is entered, his/her SSN will become a required field

See page 13for Deceased Spouse/Taxpayer
See Starting a New Return above for acceptable means of SSN verification

Mailing Address

- Name line 2 – this is used ONLY if the address requires four lines or in the case of a deceased taxpayer, see page 13 Deceased Spouse/Taxpayer below

- Current mailing address – enter the taxpayer's street address (fractions allowed) or post office box

CA Note: **If the street address contains an Apartment Number or PMB and it doesn't fit on the CA address line, *CA 540 Pg 1* will turn red and the first box on *CA 540 Pg 1* will be red. Update the CA address now so that is not overlooked**

- The FTB database stores addresses using a shorter field format from that of the IRS database. If the entire address does not show in the limited field on *CA 540 Pg 1*, FTB wants a breakout of apartment and suite addresses (numbers) into three separate fields – street address, type of unit, and unit number. If this is necessary, you must:
  - Check the "Check here to change the address ..." box at the top of *CA 540 Pg 1*
  - In the field to the right of the federal address line, enter APT or BLDG, RM, SP, STE, UN
  - In the field below, enter the apartment (or other) number
  - Remove the partial apartment (or other) information from the state address leaving just the street address
- ZIP code – entering the ZIP code automatically fills the city and state, however you may need to overtype the city if the ZIP code is shared by multiple cities
  - If you get a popup box for a new ZIP code, make sure that you have typed a valid ZIP code
- Foreign addresses are entered in a separate section lower on this form

E-Mail Address

If the taxpayer has provided an email address on the intake form, enter it here

Telephone Numbers

- We need a telephone number to call the taxpayer if the return is rejected or there is an error
- Enter taxpayer's daytime, evening, and especially cell phone numbers
- This field may be left blank if they do not have a telephone

Birth Date

This is required for each taxpayer to calculate eligibility for various credits, and must agree with the IRS's records if certain credits are claimed

Taxpayer Occupation(s)

- Complete as appropriate – RETIRED, UNEMPLOYED, STUDENT are acceptable
- DECEASED is the appropriate entry if the taxpayer or spouse died during or after the tax year

Taxpayer Information

- Special Processing, used by military, is out-of- scope – refer taxpayer to a military site
- Exclusion of Puerto Rico Income is ***out-of-scope***
- Determine if the taxpayer and/or the spouse qualify as blind or totally disabled
  - If so check the appropriate boxes
  - A letter from a physician or optometrist should be kept by the taxpayer if this is the first time they qualify as blind or totally disabled
- See below for Deceased Spouse/Taxpayer

Presidential Campaign

Check the appropriate boxes if the taxpayer and/or spouse wish to direct this amount of their tax to the Presidential Campaign Matching fund

Filing Status

- Click and enter correct filing status
- An individual is "married" if they are married under domestic or foreign law
  - Married status continues until the marriage is dissolved by divorce or death
  - This applies equally to common law marriages
  - It also applies if the spouse resides outside of the US
- In the event the spouse does not have a social security number or ITIN, the primary taxpayer is still considered married and must file MFJ, MFS (see Married Filing Separately exception below) or HoH
  - ***Note:*** If the spouse is a nonresident alien, an election can be made to be treated as a resident, in which case the spouse's worldwide income must be included in the return. If the Taxpayers wish to make this election, they must be referred to a paid preparer

- Head of Household
  - Consider whether one of the special situations applies that allows the married person to claim HoH status if all requirements are met (married but lived apart; nonresident spouse)
  - Enter a name of a qualifying person only if they are not a dependent

Deceased Spouse/Taxpayer

- If filing MFJ and the primary listed on the prior year's return has died, there are two choices
  - Start a new return listing the survivor as the primary
  - Carryforward the information from the prior year, make the survivor as primary and make changes as needed (be sure all TP or Spouse boxes are correctly checked on forms, especially *W2s* or *1099s*)
- Enter date of death in the appropriate field
  - If this is a joint return (based on the filing status of MFJ), TaxWise will automatically show the return as being filed by surviving spouse
  - The date of death is matched against the IRS's database (obtained from the SSA) – a mismatch may cause the e-file to reject
- The combined name fields must not exceed 30 characters when there is a deceased taxpayer
  - Jonathan & Elizabeth Smith would be 26 characters counting all spaces
  - If names exceed 30 characters, delete middle names, abbreviate first names, or truncate names
- Enter name of surviving spouse OR the name and address of person handling the estate in the Name line 2 of the mailing address
  - Enter "%[space]" before the name
- ***CA Note:*** Go to *CA 540 Pg 1*, Deceased Taxpayer or Spouse Information
  - The executor / guardian information must be entered
    - If the surviving spouse is filing the return, enter the surviving spouse's name/number
    - If there is only a beneficiary (acting as an executor), enter the beneficiary's name/number
    - Failure to complete the executor/guardian information will cause an e-file reject
  - Complete the decedent representative information
    - If filing as a surviving spouse, TaxWise completes Decedent Representative with the survivor's name; check the spouse box
    - If the filing is by someone else, an override is needed to enter the decedent representative information
  - ***Note:*** it may be necessary to override the fields to enter the information
- ***CA Note:*** Go to *CA 8879*
  - Complete ERO declaration using the same name and representative type listed on *CA 540 Pg 1*
- Occupation: DECEASED is the appropriate entry if the taxpayer or spouse died during or after the tax year
- Deceased person-signature requirements
  - A Power of Attorney (POA) expires at time of death
  - A surviving spouse will sign the return and add "as surviving spouse" after their name
  - A personal representative or executor will sign their own name with their title
- Form 1310 refund due a deceased taxpayer will be required if the return is filed by other than a surviving spouse and there is a refund
- Deceased taxpayer returns take extra IRS processing time

Married Filing Separately or Head of Household for Legally Married Individual

- Before considering MFS, make sure they do not qualify as HOH
- Determining whether or when the "community" has ended is a difficult legal determination. If the community exists for any portion of the year, the spouses must split their community income, which itself is another difficult legal determination. Preparing a return with MFS status or HoH status when the individual was legally married during any part of the tax year is therefore very limited for the Tax-Aide program.
- Tax-Aide can prepare the return ONLY WHEN the spouses are not communicating (e.g. abandoned). Additionally, all 4 of the following conditions must be met:
  - Couple has separated, lived apart the entire year AND there was no intention to reconcile throughout the tax year and such intention continues
  - No commingling of funds
  - Name and social security number or ITIN of spouse available (or non-resident alien)
  - Approved by the Local Coordinator

- Enter the spouse's name and social security number on the *Main Info* sheet, and answer the questions after the MFS filing status box
- Tax Wise will add *8958* to the Tree and it will be red
  - Complete the Total Income column as needed
  - The Total column and the first Allocated column should be the same
    - The headings may be confusing, but they refer to spouse-1 and spouse-2
    - For in-scope returns, all income must be for the taxpayer (spouse-1)
    - There should be no entries in the column for the non-client spouse for the situations we handle
- On *1040 Pg 2 L 39b*, **F3** the MFS box if the taxpayer is eligible to claim the standard deduction
- This return can be e-filed

Exemptions

- Verify if someone else can claim the taxpayer or spouse (if applicable) as a dependent
- Check appropriate boxes

Dependents

- Complete information as necessary, do NOT enter the last name if it is the same as the taxpayer's
- Enter youngest first so that the EIC forms use the most eligible children
- Birth Date – without the slashes
- Social Security Number – without the dashes
- Relationship to taxpayer – choose from the pick-list
  - If an in-law, use the relationship without the in-law, e.g. son-in-law becomes son
- Mo in Hm (home) – choose number of months the dependent lived in the home from the pick list
  - Use 12 for dependents who were born or died during the year
- Code Field – enter the appropriate code from the dropdown list
  - For a noncustodial parent claiming a child who did not live with them for more than 6 months, be sure to enter Code 2
  - Use Code 3 for a grandchild or any other dependent that is not the taxpayer's biological, adopted or eligible foster child
  - For a custodial parent that has signed a Form 8332 and cannot claim the child as a dependent, but can claim EIC and/or HOH, enter code 0
- DC = Dependent Care Credit – check this ONLY if the taxpayer has dependent care expenses for the person (this adds *2441* to the Tree)
- EIC = the rule is to always check the box for dependent children so that TaxWise opens the necessary forms
- CTC = Child Tax Credit – this is a calculated field which TaxWise will complete based on the data entered
  - See Pub 4012 page C-12 for child without SSN or ITIN
- If there are more than four dependents:
  - Enter the first four on the *Main Info* sheet (make sure that those who qualify for EIC are entered first)
  - Go to *1040 Pg 1* and link from a dependent line to *Addl Deps – Form 1040 line 6c* and add the dependents
- ***Note:*** If a change is made to any of the first 4 listed dependents on the *Main Info* sheet, you need to go to the *Addl Deps* form and make the same change (e.g. spelling of name)
- If a dependent child has more than $1,900 of investment income, the child may be subject to the kiddie tax
  - Form 8615 and the return of the child are ***out-of-scope***

Noncustodial Parents

- For a noncustodial parent to claim a dependent along with the CTC, they must have a Form 8332 signed by the custodial parent relinquishing their right to claim the dependent, unless the divorce is pre-2009
- A custodial parent can NOT give away HOH status, EIC, or the dependent care credit
- A custodial parent can revoke the Release of Claim to an Exemption by completing Part III of Form 8332
- The revocation is effective in the year after notice is furnished to the noncustodial parent
- Form 8332 (release or revocation) or the relevant pages from the divorce decree for a pre-2009 divorce for each child and for each year must be transmitted to the IRS
  - See Using 8453 or Scanning PDF Attachments on page 64

State Information

- The default is Full Year Resident - CA

- CA non-resident or CA part-year resident returns are ***out-of-scope*** unless the return is being prepared under the Tax-Aide National State Tax Assistance Program
- We should always prepare and file a CA return if a federal return is being filed
  - It would be very rare that a CA return is not required for an in-scope return, in which case simply check the appropriate box AND remove the full-year resident "CA" entry
- If another state's return should be prepared, refer the client to a paid preparer for all returns, unless the return is being prepared under the Tax-Aide National State Tax Assistance Program

Type of return

- The default is e-file – there should be VERY few instances where a return cannot be e-filed and only in those instances should a paper-file return be prepared
- Refer to Final Steps in Tax Return Preparation on page 60 for the procedure to change from e-file to paper

Bank to Audit Shield

Select Your Bank, Money Clip Prepaid Visa, Fee Collect, and Audit Shield are not used by Tax-Aide and can be locked in the TWO template setup

Bank Account Information

- Generally you will complete this section after all other entries, as it applies ONLY IF the taxpayer(s) have a refund OR want to pay their balance via an ACH direct debit
- See Refund or Balance Due on page 56 for detailed instructions

Practitioner Pin

- The ERO PIN has been entered as a default
- The taxpayer PIN (12345) has been entered for both taxpayers as a default (if not, enter now)
  - It is not necessary to remove the PIN for the spouse if there is no spouse
- Enter the date in the required field
- TaxWise will add *8879* IRS e-file Signature Authorization to the Tree

Identity Protection PIN

If a taxpayer or spouse has experienced identity theft, and has previously worked with the IRS to fix this, the IRS will issue a CP10 letter with a PIN for filing a return - enter the PIN here

Third Party Designee

- This is a very limited authorization, not a power of attorney, and the taxpayer must sign the return or Form 8879 themselves
- If we have an elderly client that is accompanied by their adult child and the client seems to depend on the child for understanding your interview questions or if there are other issues, the client may be asked if they would like to designate someone for this limited purpose
- If they agree, they will have to provide a name, phone number and PIN so that the third party may discuss the return with the IRS
- Tax-Aide counselors may **never** be the third party

Return Notes

- The 3 lines at the end of *Main Info* sheet may be used for notes that will print when the *Main Info* sheet is printed and will carryforward to next year
- Taxpayer Diary may also be used – see below/next page
- Record any pertinent information regarding the current year's return at the bottom of the *Main Info* sheet, overflow can be entered on the *Prep Use* form
  - If you have any doubts what the first, middle initial and last name are for anyone listed on the return, document them as they are listed on the social security card. This way the ERO can use this information if the return rejects due to name/SSN/birth date mismatch without having to call the taxpayer
  - If the return is not completed, show information or actions necessary to complete the return
  - Enter any references/notes for next year's preparer (deaths, births)
  - Notate years and individuals for which the American Opportunity credit is claimed

NOTE: **The following paragraphs use "go to …" a form or worksheet. Individual Districts/Sites may set up their Tree differently. If the noted form is on the Tree, click on it; if the form is not in the Form**

Tree, add the form as explained earlier.

PREPARER USE FORM

This form provides several alpha-numeric fields, all 15 characters wide that can be used by local sites as they wish. However,

- Fields 11 and 12 are for entry of the answers to the statistical questions
  - This information can be determined from the Intake Sheet or **F3** if taxpayer prefers not to answer
- Field 13 is reserved for the Counselor's initials
- Field 14 is reserved for the Quality Reviewer's initials – this field is required for Activity Report Tracking

Taxpayer Reminders

- At the bottom of the form there is a four-line field where free-form text can be entered - this will appear the next year if data carryforward is used
  - See also Tax Prep Notes at the bottom of the *Main Info* sheet above and Taxpayer Diary below
- Check to see if there are comments from the prior year's return to indicate problems and/or an amendment
- Remove any notes from the prior year if they no longer apply
- Record any pertinent information regarding the current year's return at the bottom of the *Main Info* sheet, overflow can be entered here on the *Prep Use* form

PREPARER NOTES

- *Prep Notes* is a form that is e-filed with the return
- Do not confuse this with the *Prep Use* form nor with the return notes on the *Main Info* sheet

TAXPAYER DIARY

- The Taxpayer Diary can be accessed from within a return on the Toolbar or, with no return open, from the list of returns viewed
- The Taxpayer Diary allows notes by the preparer or reviewer
- When the Taxpayer Diary is used, an icon is displayed on the list of returns alerting the user to its existence
- While it is possible to empty the contents of the Taxpayer Diary (click to add a note, then delete what is no longer needed), it is not possible to remove the icon from the list of returns after it has been used
- The Taxpayer Diary icon and the contents of the Taxpayer Diary carryforward, which should be updated as needed

INCOME

LINE 7 ------- WAGES, SALARIES, AND TIPS

Go to *W2*

W2- Top Section

- Select either Taxpayer or Spouse at the top of the form (required only for MFJ)
- The "Check if W-2 is handwritten, altered, or appears not to be a true W-2" should be used ONLY IF the W-2 is truly suspect
- Check the appropriate box for address information
  - If the taxpayer's current address is not the address shown on the paper W-2, the "Check and make changes" box allows you to overwrite and change the address field to agree with the address shown on the W-2
  - If no address is shown on the paper W-2, leave the default address here
- Use the lower portion in this section for a foreign address
- "Verify withholding" box lights up when withholding is greater than IRS expects - if due diligence with client reveals no suspected problems, **F3** to clear the red
- Do not check the box labeled "Check to take calculations off lines 3, 4, 5, and 6" at the upper left until the entire W-2 has been completed and it is necessary to manually enter these values
- If the Taxpayer uses an ITIN, the SSN on the paper W-2 must be entered (see Employee SSN when filing under ITIN below)
- Do NOT enter anything in the Control number field
- Check the Corrected W-2 (W-2-C) box if it is checked on the taxpayer's copy of form W-2

- See W2- State Section below if state wages in box 16 are different federal wages in box 1

W2- Employer's ID, Name and Address

- The employer's (tax) identification number (EIN)
- If the EIN is missing, the tax return cannot be e-filed
  - Do not create a bogus number or enter a social security number as the return will be rejected
  - The taxpayer must contact the employer to get a valid EIN number
- If the computer has encountered this EIN on another return during the current season, the name and address information will be filled in by TaxWise
  - Make any changes necessary so that the information on *W2* matches the taxpayer's copy
  - Ampersand (&**),** hyphen (–**)** and slash (/**)** are allowed in the employer name field
- W-2's issued by California In-Home Supportive Services will show the name of the person being cared for (often a relative) as the employer, show an address in Roseville, and a CA tax ID assigned to that person
  - See Pub 525 and Medicaid Waiver Payments on page 39 if this income is excludible
- Verify that the employer's name and ID match the W-2 exactly, as the e-file may reject if these do not match IRS records
- TaxWise will calculate the Name code field

Employee SSN when filing under ITIN

- If the employee is filing using an ITIN, the paper W-2 will have a SSN that is not theirs
  - There will be a check box on the last line of the top portion of the *W2* that will be automatically checked if an ITIN is used
  - Type in the employee's ID number exactly as shown on the paper W-2

Employee SSN incorrect

- If the taxpayer has a SSN and the SSN is incorrect on the W-2 document, the employee must request a corrected W-2 from their employer
- If a corrected W-2 cannot be obtained, do not change the correct SSN on the TaxWise *W2* form to match the incorrect SSN paper W-2
- The return may need to be paper filed and an explanation noted about the erroneous SSN
- A W-2 without any SSN is not considered valid, so the return cannot be prepared by Tax-Aide

W2- Dollar Value Boxes

- The entries in this section must be **an exact match** (rounded) of the paper W-2
- After you complete the *W2* data entry (skipping boxes 3 to 6), check to see if the amounts in Boxes 3, 4, 5 and 6 agree with the paper W-2
  - If they are different: check the box labeled "Check to take calculations off lines 3, 4, 5, and 6" at the upper left and enter the correct data in those boxes
- Box 7: Social Security Tips are reported here. TaxWise will automatically adjust boxes 3, 4, 5, and 6
- Box 10: Dependent Care Benefits are reported here. These are rare, but it is VERY important that they are entered accurately as they directly affect other benefit calculations
- Box 12: These codes can also be found in TaxWise - **F1** for Program Help > Index > W-2, Box 12 Codes

Box 12 Code	Description
A, B, M, N	Uncollected amounts, including Social Security or Medicare taxes, which TaxWise will correctly transfer to *1040 pg 2 L 62*
C	Taxable cost for group term life insurance. Quite common, does not change anything as it is already included in Box 1 wages
D, E, F, G, H, S	Elective deferrals that can make the return eligible for the Retirement Savings Credit, which is subject to income limits (also see Y below)
J	Non-taxable Sick Pay
K	20% Excise tax on excess golden parachute payments
L	Substantiated employee business expense reimbursements. Not taxable; however if Form 2106 (***out-of-scope*** except for Military certified) is filed, the amount would go on line 7
P	Excludable moving expenses. If taxpayer(s) deductible moving expenses are not greater than this amount, Form 3903 (***out-of-scope*** except for Military certified) does not need to be filed

Box 12 Code	Description
Q	Non-taxable combat pay. Optionally used to calculate Earned Income Tax Credit - TaxWise will pick the correct option. ***Out-of-scope*** except for Military certified
R	Employer contributions to an Archer Medical Savings Account (MSA) ***out-of-scope***
T	Adoption benefits – ***out-of-scope***
V	Income from the exercise of nonstatutory stock options (informational – income is included in Box 1)
W	Employer contributions to an employee's Health Savings Account (HSA) will put *8889* on the Tree – ***out-of-scope*** except for HSA certified
Y	An elective deferral that is NOT eligible for Retirement Savings Credit
Z	Income under section 409A on a nonqualified deferred compensation plan
AA, BB, EE	Designated Roth contributions under a section 401(k), 403(b) or 457(b) plan
DD	Cost of employer-sponsored health coverage – For 2014, if there is any amount with this code, check the box for full-year health coverage on *1040 Pg 2 L 61*

- If there are more box 12 entries than TaxWise *W2* allows, use box 14 for those that do not impact the return
- Code W - HSA Employer Contribution ***--must be HSA-certified***
  - Employer contributions to an HSA are not taxable for federal. TaxWise handles code W properly
  - ***CA Note:*** CA does not recognize HSAs – see Health Savings Accounts in CA below starting at page 54
- Box 13: Check the applicable boxes to agree with the paper W-2
  - The retirement plan box determines IRA eligibility rules
  - Statutory employee income can be reported on Schedule C
    - Check the statutory employee boxes in the lower section of *W2* input form (in addition to checking the statutory employee box in Box 13)
    - Input the statutory employee income on a separate *Sch C* (*L 1*) and enter expenses related to it on that same *Sch C*
    - Also check the box on *Sch C* after the second sentence on *L 1*
    - ***Note:*** Schedule SE is not required as Social Security and Medicare taxes have already been withheld and TaxWise handles this correctly if the appropriate boxes are checked
- Box 14: Enter the code(s) and dollar amount(s) shown on the paper W-2
  - These entries will not affect the tax return. However if there is an entry for a retirement contribution in this box (e.g. RET TS), this might be an elective contribution. You need to ask if this is the case. If so, then you need to check the box that generates Form 8880, and fill out accordingly
  - Do not enter disability in box 14 (SDI, VPDI, etc.) – see Instructions for *W2 – California W2s Only* below
- RR fields: complete to conform to paper W-2.

W2- State Section

- Box 15 Enter the State ID number without dashes or spaces (TaxWise truncates the carryforward for the following year after 9 digits)
  - The State ID number is NOT the same as the federal ID number
  - If the State ID is blank on the paper W-2, enter six nines (999999) in TaxWise
  - The State ID is not required if no state tax was withheld
- Box 16: State wages may be different than federal, in which case check the "take calculations off line 16, state wages" box at the top of the TaxWise *W2* and enter the correct amount in Box 16
  - ***CA Note:***
    - TaxWise does not carry the state wages difference to *CA 540*
    - You must manually enter the adjustment amount on *CA CA* as an addition or subtraction
    - Go to *CA CA L 7* Subtractions or Additions column as appropriate and link to a *Scratch Pad* to make the adjustment
- Box 19 (local tax)/Box 20 (local name): do not use for CASDI, SDI, VPDI, VP, or VI (see next section)

Instructions For W2 – California W2s Only (At Bottom Of W2)

- Enter the SDI literal and the amount so that TaxWise can calculate the amount to be carried to Schedule A as an income tax deduction and claim a refund for any excess state disability insurance payments on the CA return (*CA 540 Pg 3 L 74*)
  - Permitted entries are CASDI, SDI, VD, VPDI, or VI only

- ***Note:*** VD, VPDI, or VI are included in determining excess SDI contributions, but are never carried to Schedule A as none is considered a tax - TaxWise handles this correctly
- The maximum amount subject to SDI for 2014 is $101,636 resulting in $1,016.36 withholding
  - If the maximum is exceeded, TaxWise properly computes the allowable credit

Multiple W-2s – CA extra attention needed

- TaxWise does not automatically add additional *CA W2* forms to match the federal *W2* forms
- For e-file returns with more than one W-2 form, click "**+**" on *CA W2* in the Tree (no hyphen between "W" and "2") to add more *CA W2* forms as needed
- TaxWise will give a diagnostic if there are insufficient *CA W2* forms
- For paper returns, instead of attaching the original paper W-2 forms, TaxWise uses *CA W-2* summary forms
  - ***Note:*** *CA W2* becomes inactive and *CA W-2* is added to the Tree as active
  - If the return has more than two W-2 forms, click "**+**" on *CA W-2* (with a hyphen) in the Tree (summary schedule with two W-2s per page) to add more *CA W-2* forms as needed
  - Assign sequential numbers 1, 3, 5 etc. (numbering relates to the sequence of W-2 forms, not the page number of the summary schedule)
  - ***Caution:*** TaxWise does NOT give a diagnostic for paper returns if there are not enough *CA W-2* forms

Sick Pay

- If a W-2 reports Nontaxable Sick Pay in Box 12 with a code J and no other entries, it is not necessary to enter the W-2 in TaxWise
- If there are any other entries, enter $1 in box 1 to enable e-filing

Substitute W-2

- If the client has not received a W-2 by February 15th and has attempted to get a copy from their employer and failed, they can contact the IRS for possible assistance
- If no IRS assistance is possible, a substitute W-2 can be used
- You will need a pay stub for the last pay period worked that shows cumulative pay and withholding
- Proceed as follows:
  - Open a *W2* and place the cursor in the Employer's name field
  - Link to New *4852* Substitute W-2 or 1099-R
  - Complete the form
- If a substitute W-2 form is completed, you must file a paper return
- Form 4852 prints with the return and must be signed and attached to the return with any other W-2

Scholarships, Fellowships & Grants – W-2 or 1098-T

- Reportable on the return of the person receiving the scholarship, even if they are the dependent of another taxpayer
- If a W-2 was received (usually pay as a TA), the whole amount is taxable and cannot be reduced by expenses
- If a 1098-T was received and the scholarship/grant is greater than the expenses shown on form 1098-T, you may need to use *1040 Wkt1*, top section
  - The scholarship amount MUST be reduced for tuition, fees, books and equipment **if** the scholarship is awarded specifically to cover these expenses
  - The scholarship amount MAY be reduced for actual expenses if the scholarship is not specific
  - The 1098-T shows only the tuition and fees so the amount spent for books and equipment must be determined by the client
  - Caution is needed as expenses may be either paid or billed – the student should be able to access their account records and reconcile the amounts
- ***Note:*** An education credit or deduction cannot be claimed for any expense used to reduce the taxable scholarship amount – these may overlap calendar years
- You can use Worksheet 1-1 on page J-1 of Pub 4012 to determine the taxable portion, which requires that you ask questions about how the money was used
  - Pub 4012 also shows taxable/non-taxable items
- Also see the Education benefits worksheet at page 79, which can be downloaded from the ShareNet
- ***Note:*** Student loans are never income and expenses paid with borrowed funds are eligible for credit or deduction, if the requirements are met

Indian Tribal Income

- Tribe members may work for the tribe or at the tribe's casino for which they will receive a W-2
- Always taxable for federal
- ***CA Note:*** Indian Tribal Income is exempt from CA taxes ONLY WHEN the recipient is living and working on Indian tribal land
  - An adjustment on *CA CA* is required if exempt from CA taxes
  - Enter an adjustment on *CA CA L 7*, with a *Scratch Pad*

Tip Income

- Employers include reported tips in taxable wages on W-2 (Box 7 social security tips added to Box 3 should equal box 1 wages)
- Alternatively, employers may report "allocated tips" on which no social security or Medicare tax has been withheld
  - Use *4137* to compute social security and Medicare tax due
- When the W-2 has an amount in Box 8 allocated tips
  - If the employee keeps a detailed tip log, they may report the actual amount of tips, which may be more or less than the allocated tip amount
    - Go to *4137* and use a *Scratch Pad* to adjust *L 4* to the actual amount of tips received (may need to use **F8** to override the *L 4* amount)
  - Unreported tips of less than $20 per month are deemed included in the allocated tip for income tax purposes but are not subject to social security or Medicare tax
    - Enter the unreported tip amount (not more than $20 per month) on *4137 L 5*
- If Allocated Tips (W-2 box 8) is zero (which means that reported tips are included in box 1 wages)
  - Unreported tips must be added to income using *4137*
  - Add *4137* and complete the employer information
  - Enter unreported tips on *L 4*
  - If unreported tips are less than $20 in a month, enter that amount in *L 5* (TaxWise backs this out of the social security or Medicare tax calculation)
  - ***Note:*** do not use the old $1 in allocated tips trick to prepopulate *4137* as it may result in an incorrect calculation of taxable income

Household Employee income

- A household employee who did not receive a W-2 because the employer paid less than $1,800 for the entire year reports the income on *1040 Wkt1*
- Multiple employers can be listed as long as each paid less than $1,800
- The amount is transferred to *1040 Pg 1 L 7* with a HSH notation
- ***Note:*** household worker income is reported on Schedule C ONLY WHEN the taxpayer has an independent business

Work Release or Penal Income

- Income earned while an inmate (even if on work release with a private employer) is not considered earned income for EIC or Additional Child Tax Credit purposes
- **Go to *Sch EIC Wkt*** Figure Your Credit at the bottom of the form and enter the nonqualified income on *L 1a*
- **Go to *8812 Pg 1***, Part II and enter the nonqualified income on *L 4a*

LINE 8 ------- TAXABLE INTEREST

Foreign accounts or assets

- When the taxpayer appears to have foreign accounts or foreign financial assets, you need to inquire
  - Confirm they are foreign, not U.S. payers (look for an Employer Id No)
  - Confirm the highest value during the year or at year end
- *Sch B* – the questions at the bottom need to be answered by the taxpayer
- Additional filing requirements may apply
  - FinCen 114 (old TD 90-22.1) for foreign accounts is ***out-of-scope***
    - Filed separately from the 1040
    - Generally, if value is more than $10,000 at any time during the year
    - Includes signature authority over a foreign account

- Form 3520 for foreign trusts / receipt of foreign gifts or bequests is ***out-of-scope***
  - Filed separately from the 1040
  - Transactions with or ownership of foreign trusts
  - Certain large gifts or bequests from foreign persons
- Form 8938 for specified foreign financial assets is ***out-of-scope***
  - Must be filed with the return – so if this form is required, the return is ***out-of-scope***
  - If value is more than $50,000 ($100,000 MFJ) at the end of the year
  - Or, if value is more than $75,000 ($150,000 MFJ) at any time during the year

Note: There are substantial penalties for not filing a required form

Seller-Financed Mortgages (Sch B, L 1a)

Go to *Sch B*

If the taxpayer (seller) is using an installment sale plan to report capital gains on a sale over a period of time, the return is ***out-of-scope***

- If the income is solely from interest, fill in the required information about the payer
- If the seller has interest income from more than one payer, EACH item must be entered on a supporting worksheet
  - Link to NEW *Seller List* – Schedule B Seller Financed Mortgages from the far right amount field
  - Complete the required information for each payer

Interest Income

Go to *Interest Stmt* - tab to first field or the amount field if payer is already shown

RULE: Interest entries MUST be made using the Interest Statement; NOT directly on Schedule B (except for seller-financed mortgage interest)

- This information may come from a 1099-INT or -OID, substitute 1099-INT or -OID, a brokerage statement, or a K-1 (hereafter, all are referred to as a "1099-INT form")
- Do not leave blank lines between entries
  - Use **Ctrl+I** to insert a row or **Ctrl+R** to delete a row (the page refresh may hesitate – give a few seconds)
- Only ONE *Interest Stmt* is allowed per return
  - Always return to the same one when adding additional entries
- If there are entries in both Boxes 1 and 3 (for US Government Bond Interest) of a 1099-INT enter each on a separate line on the *Interest Stmt* – do not combine the amounts
  - ***CA Note:*** Interest income from US Savings Bonds, Treasury Bonds and other direct obligations backed by the US Government are not taxed by California and include federal Land Banks and Federal Home Loan Banks. They do **not** include Fannie Mae and Freddie Mac.
    - Enter a "**-**" in the "State Adjust +/-" column in the *Interest Stmt* and enter the adjustment amount
- Tax-Exempt interest on state or local bonds must be included on the *Interest Stmt*
  - Enter `E` and the amount in the NAEOB column (detailed description in Pub 4012)
  - If an account has regular and tax-exempt interest, enter each on a separate line on the *Interest Stmt* – do not combine the amounts
  - ***CA Note:*** State and municipal bond interest from states other than CA, which is identified as federally tax exempt, is taxable for CA
    - Enter a "**+**" in the State Adjust column on the *Interest Stmt* and enter the adjustment amount
- ***CA Note:*** CA does not recognize HSAs – interest income earned in the trust is currently taxable for CA following the normal CA rules - see Health Savings Accounts in CA below starting at page 54
- If either the NAEOB or State Adj amount field is red and there should not be an entry, remove the entry in the field before the red "amount" field (**E** or **+/-**)
- Completing the *Interest Stmt*:
  - Payer – payer name, may be abbreviated
  - Box 1 or 3 Amount – amount entered will be reflected on both the federal and the CA returns
  - For federally tax-exempt interest, do not enter an amount in the first (Box 1 or 3) column
  - "TSJ" – leave blank, it does not apply as CA is a community property state
  - Complete the NAEOB information before entering any state adjustment.
    - ONLY code E is in scope
    - Enter the exempt interest amount

HINT: Complete the *Interest Stmt* as if there is only a federal return. Then ask the question "is the interest treated differently by CA" to determine the needed state adjustment, if any

- State adjustment entries are used for differences between federal and state tax law (e.g. where the amount is not taxable for federal but is taxable for state or vice versa – see examples C and E below); enter "**+**" or "**–**" to indicate whether the amount is or is not subject to state tax and the amount
- If there are entries for Box 9-AMT PAB (Alternative Minimum Tax-Private Activity Bonds) enter them and then make sure there is no Alternative Minimum Tax *1040 Pg 2 L 45*, which would make the return ***out-of-scope***
- Early penalty – any early withdrawal penalty as shown in Box 2 on the 1099-INT
  - This is transferred to *1040 Pg 1* L 30
- Federal Withholding - enter any federal withholding shown in Box 4 on form 1099-INT
  - ***CA Note:*** CA withholding, Boxes 11-13 on Form 1099-INT, should be entered on *CA 540 Pg 3* L 71 (last entry field) as "1099" and the amount should be linked to a *Scratch Pad* that details the payer's name and state I.D. number (that helps the FTB match the withholding)

Examples of Interest Income

	Payer	Box 1 or 3 Amount	TSJ	State Adjust +/-	State Adjust Amount	NAE OB	NAEOB Amount	AMT PAB	Early penalty	Federal withheld
A	CHASE BANK	2000			0		0		0	0
B	BANK OF AMERICA	100			0		0		40	0
C	US GOVERNMENT BONDS	666		–	666		0		0	0
D	CA STATE BOND	0			0	E	111		0	0
E	OTHER STATE BOND	0		+	333	E	333		0	0

- **Example A:** $2,000 ordinary interest from Chase Bank, reported on form 1099-INT, box 1, substitute 1099-INT, or brokerage statement
  - Taxable on both the federal and CA returns
  - Enter 2000 in the Box 1 or 3 Amount column
- **Example B:** $100 interest from Bank of America Box 1 with early withdrawal penalty of $40 in Box 2 reported on form 1099-INT, substitute 1099-INT, or brokerage statement
  - Taxable on both the federal and CA returns
  - Enter 100 in the Box 1 or 3 Amount column and 40 in the Early Penalty column
- **Example C:** $666 interest from a bond issued by the United States Government, reported on a 1099-INT Box 3, substitute 1099-INT, a statement from the US Bureau of Debt, Treasury Direct, or brokerage statement
  - Taxable on the federal return, exempt on the CA return
  - Enter 666 in the "Box 1 or 3 Amount" column
  - Enter "**–**"in the +/– column and 666 in the State Adjustment Amount column
- **Example D:** $111 interest from a CA municipal bond, reported on a statement issued by the state/municipality or a brokerage statement
  - Not taxable on either the federal or CA returns – no state Adjustment required
  - Do not enter anything in the Box 1 or 3 Amount columns
  - Enter an **E** in the column headed NAEOB and 111 in NAEOB amount column
- **Example E:** $333 interest from a state OTHER THAN CA municipal bond, reported on a statement issued by that state or a brokerage statement
  - Not taxable on the federal Return, taxable on the CA return
  - Do not enter anything in the Box 1 or 3 Amount columns
  - Enter an **E** in the column headed NAEOB and 333 in NAEOB amount column
  - Enter "**+**" in the +/– column and 333 in State Adjustment Amount column
- ***Note:*** Mutual funds now report distributions as dividends, even if they originate from interest earned on the fund's portfolio – see L 9 Dividends below

OID Interest

- OID interest income is regular interest
- Note that OID adjustments are ***out-of-scope***
- Enter the total OID interest received in the Box 1 or 3 amount column
- ***CA Note:*** If 1099-OID shows an amount in box 8, US Treasuries, enter a "**-**" state adjustment to make it nontaxable for CA

Simple K-1s and Prepaid Funeral Plans

- Pre-Paid Funeral/Burial plans report income earned on the prepaid funds on either a K-1 or 1099-INT
- Income reported on a K-1 is from partnerships, S-corporations, trusts and estates
  - These are ***out-of-scope*** for Tax-Aide; however an exception is made if income consists only of interest, dividends, royalties, capital gains/losses and associated foreign tax credits
- Because of TaxWise peculiarities, it is strongly recommended to NOT use the TaxWise *K1* form
- It is advisable to input all items from a K-1 at one time so that none is overlooked
- Entries into TaxWise shall be done as follows
- Show payer as [name of payer] K-1

Hint: Line numbers vary by form (1041 K-1, 1065 K-1 or 1120S K-1) – go by line description

This Entry on K-1	Enter on Form	In This Place
Interest	*Interest Stmt* pg. 22	Box 1 or 3 Amount
If tax exempt (Fed & Cal)	*Interest Stmt* pg. 22	**E** in NAEOB, amount in NAEOB amt
And If tax exempt (Fed only)	*Interest Stmt* pg. 22	**+** and Amt. in State Adjust Amt (same line)
Total Ordinary Dividends	*Dividend Stmt* pg. 23	Total Dividends
Qualified Dividends	*Dividend Stmt* pg. 23	Qualified Dividends
Net Short-term Capital Gain/Loss	*Sch D Pg 1*	*L 5*
Net Long-term Capital Gain/Loss	*Sch D Pg 1*	*L 12*
CA: Net capital gain/loss ***Note:*** Fed does not carry to CA; CA amount from CA K-1 may differ	*CA D*	Line 2 Loss and/or Gain, as applicable
Royalty	*Sch E Pg 1*	*L 4*, address and Type 6 on *L 1*
Foreign tax credit	*1116* pg. 25	Top of input form (see L 47 below)
All other amounts on the K-1 "Out-of-scope"		

LINE 9 ------- DIVIDENDS

Go to *Dividend Stmt* - tab to first field or amount column if payer is already shown

RULE: All dividend entries MUST be made on the *Dividend Stmt*, NOT directly on *Sch B*

- This information may come from a 1099-DIV, substitute 1099-DIV, a brokerage statement, or a K-1
- Do not leave blank lines between entries
- Use **Ctrl+I** to insert a row or **Ctrl+R** to delete a row (the screen refresh may take a second or two)
- Only ONE *Dividend Stmt* is allowed per return
  - Always return to the same one when adding additional transactions

Foreign account or assets

- See additional reporting requirements at the start of Line 8 Taxable Interest above on page 20

Completing the Dividend Statement:

- **Payer** – payer name, abbreviated if necessary
  - Enter name of brokerage or processor issuing the 1099, not the individual stock or fund names
  - The company that issues the stock or its transfer agent will be the processor if the client holds the stock directly

- **Ordinary dividends** – enter the dividends shown on the 1099-DIV
- **Qualified dividends** – enter the qualified dividends shown on the 1099-DIV
- **TSJ** – CA does not require this field, leave it blank
- **State Adjustment** - used for differences between federal and state taxable amounts
  - Refer to the California exemption rule below for fund dividends
  - CA does not recognize HSA trusts, dividend income earned in the trust is currently taxable for CA following the normal CA rules - see Health Savings Accounts in CA below starting at page 54
- **N** – Nominee – not used by Tax-Aide ***out of scope***
- **Capital Gain** – enter capital gains distributions shown on the 1099-DIV
- **1250 Gain** – the 1250 Gain cannot exceed the capital gain amount; however TaxWise does not check for this situation and therefore will not prevent you from making an error
- **28% Gain** – the 28% Gain cannot exceed the capital gain amount; however TaxWise does not check for this situation and therefore will not prevent you from making an error
- **Federal With** – enter any federal withholding shown on form 1099-DIV
- **Exempt int. div.** – if entering amounts here, do not include the amount in the Ordinary Dividend column This amount will appear on *1040 Pg 1 L 8b* as Tax Exempt Interest
  - ***CA Note:*** Enter an adjustment for interest that is not exempt for CA in the State Adj columns
- **AMT-PAB**- Alternative Minimum Tax-Private Activity Bonds
  - Make sure that no Alternative Minimum Tax is shown on *1040 Pg 2 L 45*, which makes the return ***out-of-scope***
- **Non-Dividend Distributions** are not taxable and should NOT be entered in TaxWise
  - Advise the client that they are a return of investment and reduce the basis of the security
- **Liquidation Dividends** in box 8 are ***out of scope***
- ***CA Note:*** CA withholding, Boxes 12-14 on Form 1099-DIV, should be entered on *CA 540 Pg 3 L 71* (last entry field) as 1099 and the amount should be linked to a *Scratch Pad* that details the payer's name and state I.D. number (this helps the FTB match the withholding)

Examples of Dividend Income

	Payer	Ordinary dividends	Qualified dividends	TSJ	State Adjust +/-	State Adjust $	N	Capital gain	1250 gain	28% gain	Federal with.	Exempt int. div.	AMT PAB
1	GENERAL MOTORS	1200	1200				0		0	0	0	0	0
2	MERRILL LYNCH	800	150				0	200	0	50	0	0	
3	GOVT SECURED FUND	1500	0		-	1425	0		0	0	0	0	0
4	MUNI FUND	0	0		+	250	0		0	0	0	250	50
5	CA MUNI FUND	0	0				0		0	0	0	325	75

- **Example 1**-- Ordinary and Qualified Dividends
  - General Motors Corporation common stock with ordinary dividends of $1,200, all of which are qualified
  - Dividends are taxable on both the federal and CA returns
- **Example 2** – Merrill Lynch held Stock and Mutual funds
  - Total of investments held at Merrill-Lynch
  - $800 ordinary dividends, of which $150 were qualified dividends
  - $200 in capital gains, of which $50 is a 28% gain.
- **Example 3** – State exempt interest dividends from direct Federal Government obligations
  Assume that the Government Secured Fund includes investments in federal government & agency bonds and that such bonds represent more than 50% of its assets. The fund reports that 95% of the dividend income is from federal bonds
  - Manually calculate the amount based on information from the mutual fund/broker provided by the taxpayer (95% x $1,500 = $1425)
- Example 4 – General municipal fund exempt from federal tax; taxable to CA because <50% of the assets are CA municipal obligations
- Example 5 – California municipal fund holding only CA municipal obligations is exempt for both federal and California

California exemption rule

- Generally the fund will indicate how much is exempt from state tax on a separate statement as a percentage of the total fund distribution
- The general rule is:
  - If less than 50% of the assets of the fund are federal and/or CA obligations, ALL is taxed by CA
  - If 50% or more of the assets are federal or CA obligations, the income from those obligations only is exempt from CA tax
    - You must manually calculate the amount based on information from the mutual fund/broker provided by the taxpayer

To Finish Schedule B

- You must ask, and enter the answers to, the questions at the bottom of *Sch B*, when Schedule B is required
- If any answer is "yes," see Foreign accounts or assets above at page 20
- Failure to answer the questions when *Sch B* is required will leave a red mark on the Tree

LINE 47------ FOREIGN TAXES PAID ON INTEREST OR DIVIDENDS

Go to *1116*

- Foreign taxes may appear on 1099-INT, 1099-DIV, K-1, or a substitute for any of these

Foreign taxes shown on any other document, e.g. royalty statement, are not eligible for the simplified election. A full Form 1116 is needed to claim a credit for such taxes, which is *out-of-scope*

- Input in the Simplified Limitation Election field at the top of the form
- The return is ***out-of-scope*** if the client wants to use the full Form 1116 or the total foreign tax amount to be credited EXCEEDS $300 ($600 for a joint return)
- Taxpayer may choose an itemized deduction for the foreign taxes instead of a foreign tax credit (if there is a tax liability, the credit will normally produce a better result)
- ***Note:*** if there are foreign tax credits greater than the amount of tax liability (*1040 Pg 2 L 46*), no carryback or carryover of the unused foreign tax credits is allowed if the simplified credit is elected
  - In such cases, the client should be referred to a paid preparer if they wish to preserve the carryback/over opportunity by filing a full Form 1116

LINE 10------ TAXABLE STATE INCOME TAX REFUND

- California uses a post card-sized document to report prior year state income tax refunds
- The amount reported is the California refund that may be taxable in the year received
  - It is NOT taxable if there was no benefit to the income tax deduction in the prior year
- Check the "YES" box *1040 Pg 1* above *L 10* **ONLY IF the taxpayer(s) itemized deductions AND deducted State Income tax (not sales tax) for the year of the refund**
  - If the "NO" box is RED and unchecked, it may be necessary to check YES and then NO and again YES to remove the RED
- If some or all of the refund could be taxable, add the State Tax Refund Worksheet (*St Tax Refund*)
  - ***Note:*** You MUST have the prior year's tax return to accurately complete the worksheet if the needed information is not carried forward by TaxWise
- Line 2 General Sales tax must be calculated if not shown on the prior year's return or if not carried forward
  - Use the IRS calculator at http://www.irs.gov/Individuals/Sales-Tax-Deduction-Calculator
  - If unable to access the internet, refer to prior year's Duckbook
- Enter the filing status on *L 7* and number of taxpayers over 65 in prior year or blind on *L 8*
- TaxWise will calculate the standard deduction on *L 9*
- If the prior year's return is NOT available (select SUMMARY form from the Tree to see prior year if this is a return with carryforward data) and it is likely that there were itemized deductions, enter the entire refund amount directly on *1040 Pg 1 L 10* for Taxable Refunds
  - ***Note:*** If this line has been linked to the State Refund Worksheet, see "Field is yellow resulting from linking in error" under Confusing Situations in TaxWise on page 8

CA Note: State taxes are not deductible on the CA return. Therefore, refunds of any state taxes are not CA-taxable – TaxWise makes the adjustment on *CA CA*

LINE 11------ ALIMONY RECEIVED

- Alimony received is entered directly on *1040 Pg 1 L 11*
- Child/Family support received is NOT alimony and is NOT taxable
- See Pub 4012 page E-3 for eight tests to determine if payments are alimony
- TaxWise handles alimony correctly for these
  - Alimony is not considered earned income for EIC
  - Alimony is considered compensation for IRA deduction purposes

LINE 12------ BUSINESS INCOME

Go to *Sch C Pg 1*

- AARP Foundation parameters specify that Tax-Aide will NOT prepare business returns
- Tax-Aide may complete Schedule C, using C-EZ limitations, to report non-employee compensation (Self – Employment) with these exceptions:
  - Total expenses on any single *Sch C* cannot exceed $10,000, and
  - Multiple *Sch Cs* are allowed (use one for each business; do not combine businesses)
- Tax-Aide shall not prepare a return that includes a net loss on *Sch C*, a depreciation deduction (including an immediate write-off election) or office-in-the-home expenses (not even the simplified method)
- There is no income limit and all income must be reported
- *Sch C* carries to the CA return as part of federal AGI
- Use *Sch C*, not *Sch CEZ*
  - If a *Sch CEZ* carries forward, transfer the information to *Sch C* and delete *Sch CEZ*

Completion of Sch C

- Check at the top to indicate whether the form is for the taxpayer or spouse
- Complete the requested information for Questions A through J
- Business name and EIN Questions C and D will usually be blank, they are NEVER taken from the 1099 payer information
- Business address Question E is usually the taxpayer's home address
- Accounting method Question F is "Cash" or return is ***out-of-scope***
- Material participation Question G is "Yes" or return is ***out-of-scope***
- Payments needing 1099 forms Question I is "NO" or return is ***out-of-scope***
- Business Code Question B - look up in the 1040 instruction booklet or do the following:
  - From *Sch C*, click **F1**
  - On the Help page, click **Index** in lower left panel
  - Click **Codes for Principal Business Activity** link
  - Find the most applicable code and copy it (**Ctrl+C**)
  - Close the Help browser tab
  - Paste the code into the applicable field on the *Sch C* (**Ctrl+V**)
  - If you cannot find an appropriate code use 812990
- Enter all income on *Sch C L 1*
  - Input all Forms 1099-MISC or Form 1099-K on line 1 by linking to *1099 MISC* or *Scratch Pad*
    - Select *1099-MISC* under *Sch C* on the Tree and complete the form
    - If client has more than one 1099-MISC, click the "**+**" next to the form in the Tree to open another *1099 MISC*
  - Input income not reported on 1099 forms on Line 1 also – use a *Scratch Pad*
    - ***Note:*** we should always ask if there is any additional income, such as cash or amounts not shown on 1099s
    - Do not enter on *Sch C L 6* Other Income
  - ***Note:*** Amounts entered on *1099 MISC* and *Scratch Pad* are **cumulative** – do not duplicate
- Part I Income L 2, 4, and 6 must be zero, or the return is ***out-of-scope***
- Part II Expenses must be listed by category on the individual lines provided
  - Optionally, all expenses can be listed in Part V
  - Refer to Pub 4012 F-9 et seq. for deductible travel or entertainment expenses
- Part III Cost of Goods Sold is ***out-of-scope***

- Part IV Information for business use of a vehicle is entered in this section and it carries to L 9 under Part II
  - For 2014, there is just one rate for the whole year
- Part V Other Expenses is used for telephone, internet and other expenses that are not listed on Part II and carries to L 27 of Part II

CA Note:

- When the federal *Sch C* is used, TaxWise adds a red *CA C* on the Tree
  - Open it and check the box at the top of the form if all is correct
  - There should be no differences between federal and CA Sch Cs in the returns that we do
- ***Note:*** If there is a second federal *Sch C*, you will need to add another *CA C*
  - Hover over the first *CA C Pg1* and click the "+" to add the second Schedule C to the CA return
- If you fail to create a *CA C* to match each *Sch C* in the federal return, TaxWise will give you a diagnostic message

Notary Fees

- Notary fees are exempt from self-employment tax
- Notary fees income and expenses are reported on *Sch C* in the normal manner
- Then:
  - **Go to *Sch SE*** - enter the Exempt Notary Sch C net income amount on L 3
  - **Go to *1040 Pg 2*** - check the Exempt Notary box at L 56 - Self Employment Tax

LINE 13------ CAPITAL GAIN OR LOSS

Only stocks, mutual funds, certain bonds and personal residences are in scope
Worthless debts or other types of securities or assets are out of scope

K-1s: If a K-1 reported capital gains or losses, enter those directly on *Sch D L 5 / 12*, see Simple K-1s under Interest Income on page 23 above
Hint: Use a *Scratch Pad* if more than one K-1

All basis reported to IRS: If there is only one statement on which all the capital transactions for the year are either Code A or Code D, direct entry onto *Sch D L 1a / 8a* is advised, in which case it is not necessary to send the transaction detail to the IRS (8453 nor pdf attachment)
Note: If there is more than one statement with Code A or Code D entries, it is recommended to use *Cap Gn Wkt* to document the source of the information and facilitate QR

Capital loss carryover: Enter directly on *Sch D Pg 1* – see Capital Loss Carryover From Prior Year's (Schedule D) below

Go to *Cap Gn Wkt*

RULE: **Except for the limited direct entries on Sch D noted above, all capital gain entries MUST be made on the *Cap Gn Wkt*, NOT directly on Form 8949 or Schedule D**

- Gains or losses requiring Forms 2439, 4797, 4884, 6252, 6781, or 8824 are ***out-of-scope***
- A tax return for a dependent child with more than $1,900 of investment income is ***out-of-scope***

Capital Gains and Losses

- Proceeds and basis for sales of securities may be reported on a 1099-B or on a brokerage statement together with dividends and interest
- Basis also may be obtained from the client, the original purchase confirmation, or Form 8939 for assets inherited in 2010
- The *Cap Gains Wkt* permits entry of transactions in random order; TaxWise will separate short- term and long-term transactions
- Do not leave blank lines between entries - use **Ctrl+I** to insert a row or **Ctrl+R** to delete a row
- Each *Cap Gn Wkt* can hold 50 transactions - add more as needed
- If there are numerous transactions shown on a gain/loss statement (from a broker, program, or self prepared) that has ALL the required information, including basis information, input can be short-cut
  - **Go to Sch D Pg 1**

  - Check the box at the top to attach a substitute list with Form 8453
  - If scanning and attaching the substitute list, check the next box and select the pdf file to attach
  - **Go to *Cap Gn Wkt*** - enter summary information
    - Break down as per the original document:
      - Short term and code A, B and/or C
      - Long term and code A, B and/or C
    - Enter "XYZ stmt" (XYZ = broker name) for Description and **Code M** in column (f)
    - Select any sale date for this entry and a date acquired of "Various" for long term
    - Select Jan 1 of the current tax year for the short term
  - See Using 8453 or Scanning PDF Attachments on page 64
- If there are numerous transactions that are input and the number of transactions that would go to a single *8949* exceed 17, the transactions will not be reflected in the return until additional *8949* pages have been added (remember there can be up to 6 flavors of *8949*)
  - A diagnostic message will alert you to the problem
  - Add another one of that flavor and assign a sequential number to each, including the first one
  - Rerun diagnostics and repeat until the error message is cleared
- ***Note:*** If basis is not on the 1099 or broker's statement or if an adjustment to basis is needed, it is recommended that transactions be input on the *Cap Gn Wkt*
  - Not recommended: Modify the broker's statement to include the correct information, enter the summary information with Code M and any other applicable code in alphabetical order, the total amount of adjustment, and attach the statement with 8453 or as a scanned pdf

Completing the Cap Gn Wkt

- **Description of Property** – the number of shares and the name or stock symbol (ticker) of the security, abbreviated as required
  - Number of shares – enter only whole shares
  - Use l or FS if the transaction is a fractional share (less than one full share)
- **1099** – Enter Code A , B or C in the 1099 column to indicate source of basis; TaxWise will determine whether long or short term based on the dates entered and flow to a properly coded *8949*
- **Date Acquired**
  - If the taxpayer has made several purchases of the same security or mutual fund over time "VARIOUS" can be entered
    - Group the short term sales and enter on one line – override in the S/L column will be needed
      - Alternatively, select one date to list the purchases so that the program will treat as short-term gain/loss
    - Group the long term sales and enter on a second line
  - If the taxpayer inherited the security, IN/HE/RIT can be entered
- **Date Sold**
  - Enter the date from the 1099-B
  - Worthless shares or bonds (including abandoned) are treated as though they were sold on the last day of the tax year. This includes stocks, mutual fund shares, or bonds that become completely worthless during the year and those that are abandoned. Use "WO/RT/HLSS" as date sold and TaxWise will compute the long or short term correctly based on the date acquired
    - DO NOT use for worthless debts, which are ***out-of-scope***
- **Sales Price -** enter the Sales Price from the 1099-B or broker statement
- **Cost basis** – required
  - If basis is not shown on the 1099-B, a gain/loss statement or original purchase confirmation is not available, advise the taxpayer(s) to contact the broker to get the cost basis
  - If all else fails, enter zero as the basis and advise the taxpayer(s) what you are doing
    - The return can be amended if and when a basis is determined
  - If a non-statutory qualified stock option is exercised and sold on the same day, the client's W-2 will show a code V and the compensation amount is included in box 1 wages
    - The disposition of the stock acquired through the option is reported on a 1099-B
    - Often, there is a small loss reflecting the commissions
  - Inherited property

    - The basis is the FMV at death of original owner and needs to be supplied by the taxpayer
    - Estates of decedents dying in 2010 could have made an election for a carryover basis that would be shown on a Form 8939 provided by the estate**.** If so, use basis provided and original purchase date
        - The Taxpayer may also provide the necessary information
    - ***CA Note:*** The basis for CA is FMV at date of death in all cases. An adjustment will be needed on *CA D* if the Form 8939 has a value other than FMV
- **Adjustments**
    - If a transaction was reported on a 1099-B **with basis reported to IRS**, BUT the basis is incorrect
        - Enter an adjustment code and the amount of adjustment in the adjustment column
    - If an incorrect basis is shown in box 3 of 1099-B but basis was NOT reported to IRS, enter the correct basis in the cost column, and in the adjustment column enter Code B and -0- amount
    - Wash sales reported on brokerage statements are in scope – use code W
        - The broker will adjust the basis of the re-acquired securities – no further adjustment will be needed
        - Wash sales not fully reported on 1099-B are ***out-of-scope***
    - The Tax-Aide list of codes that are in scope or out of scope are in Pub 4012 starting at page D-16
- ***Last***, return to *Sch D Pg 1* and make sure the amounts are in the proper locations and add up to the same total as on the client's pages or brokers statements
- If federal tax has been withheld on the 1099-B or broker's statement, you MUST:
    - **Go to *1040 Pg 2*** L 62 federal income tax withheld, second field
    - Link to a *Scratch Pad*
    - Enter the Broker name and 1099B in the description field
    - Enter the amount withheld
- ***CA Note:*** CA does not recognize HSA trusts – gains and losses incurred in the trust are currently reportable for CA - see Health Savings Accounts in CA below starting at page 54
- ***CA Note:*** CA withholding, Boxes 13-15 on Form 1099-B, should be entered on *CA 540 Pg 3 L 71* (last entry field) as 1099 and the amount should be linked to a *Scratch Pad* that details the payer's name and state I.D. number (so that the FTB can more easily match the withholding)
- TaxWise automatically completes *Sch D Pg 2* using information from other forms and schedules

If there is a capital loss carryover, make sure that the *Sch D Wkt 2* is printed for reference by next year's preparer

Capital Loss Carryover From Prior Year's (Schedule D)

Go to *Sch D Pg 1*

- TaxWise will carry forward the capital loss carryovers if your site prepared the return last year
    - Otherwise, you need the prior year's return or a copy of the appropriate worksheet to correctly report any loss carryover
- Capital loss carryovers are separated between short-term and long-term for federal
- Enter (verify, if carried forward) the amounts from the prior year capital loss carryover *Sch D Wkt 2*
    - On *Sch D Pg 1 L6* for short term
    - On *Sch D Pg 1 L14* for long term
- TaxWise will create a new carryover worksheet for any balance over the maximum allowable loss of $3,000 ($1,500 if MFS)
- For clients with income near or close to the standard deduction, the prior year Form 1040 page 1 line 13 will show a $3,000 capital loss, but the carryover will not be reduced by the full $3,000
    - That is correct because no benefit was received from the loss deduction
- ***CA Note:*** Capital loss carryover amounts can vary between federal and state due to HSA or other rules
    - TaxWise will not carry forward the CA amount in any event
    - You must manually enter the total capital loss carryover on the CA return
    - Confirm that the capital gains and losses on the prior year's returns are the same for federal and CA
        - **Go to *CA D*** - enter the TOTAL of the federal short and long term carryover amounts on line 6 as a **positive number**
        - Verify that TaxWise form *CA CA* shows no subtractions/additions on the capital gain or loss line
    - If the prior year's CA gains/losses differ from the federal:
        - Compute the CA capital loss carryover
        - Enter the CA capital loss carryover on *CA D* L 6 as a **positive number**

- Verify that *CA CA* shows the correct adjustment on Line 13
- ***Note:*** if the taxpayer has an HSA and has invested the funds which produced a capital gain or loss, this situation can produce a difference between the federal capital loss carryover and the CA loss carryover

Sale of Main Home

Note: Enter the sale information if the taxpayer has received a Form 1099-S or gain is taxable (in part or in full)

- To claim the exclusion on the sale of a main home, the client must meet the ownership and use tests
  - The client must have owned the property for a total of 24 months of the previous 60 months
    - The ownership requirement can be satisfied by one of the two spouses filing a joint return
  - The client must have used it as their **principal** residence for a total of 24 months of the previous 60 months
    - The use requirement must be satisfied by both spouses when filing a joint return to claim the maximum $500,000 exclusion
    - If only one spouse satisfies the use test, the exclusion is limited to $250,000
  - The ownership and the residence 24-month test periods do not have to be continuous nor overlapping
- The client cannot have sold another property in the previous two years AND used the exclusion
- See Pub 17, chapter 15 for more information
- If any portion of the client's main home was ever rented out or used for business (home office) such that depreciation would have been allowable (whether or not it was actually claimed), the return is ***out-of-scope***
- While the lower portion of *Sch D Wkt2* is a sale of your home worksheet, it is not required and does not carry to *Cap Gn Wkt*, *8949* nor *Sch D*
- Computing the basis of the home is complicated and may require a complete review of the transactions regarding home purchases and sales since the acquisition of the first home
  - Taxpayer needs to provide the basis information
  - Calculation of this basis is ***out-of-scope***
- If the taxpayer received a 1099-S, the sale should be included on the Cap Gn Wkt even if the sales price minus basis is less than the allowed exclusion
  - The Title Company should issue a 1099-S only when the seller has indicated that the gain is more than the exclusion
- *Cap Gn Wkt* input
  - When there is a gain and an exclusion is claimed, in addition to the date acquired and date sold
    - Enter the proceeds and basis information
    - Enter the allowable exclusion as a negative number in the adjustment column with Code **H**
    - ***CA Note:*** CA conforms to the federal rules, including sale by a widow/widower within 2 years of the date of death
  - If a loss is incurred (a nondeductible personal loss), in addition to the date acquired and date sold,
    - Enter the proceeds and basis information
    - Enter the amount of nondeductible loss as a positive number in the adjustment column with Code **L**
- ***CA Note:*** If the taxpayer had California tax withheld from the sale they will receive CA 593
  - **Go to *CA 540 Pg 3 L 73* - e**nter the real estate withholding by linking to *CA 593*
- ***Note 5405 recapture:*** If the home was originally purchased after 2007 and the First-Time Homebuyer Credit was claimed, see First-Time Homebuyer Credit Repayment below at page 50

LINE 14------ OTHER GAINS OR LOSSES (*out-of-scope*)

LINE 15/16-- PENSIONS AND ANNUITY INCOME & IRA DISTRIBUTIONS

Go to form *1099R*

- Form 1099-R is the usual source document for these payments
- The Railroad Retirement Board and U.S. Government Office of Personnel Management ("OPM") use variations of the form
- Specify either taxpayer or spouse at the top of the form
- The "Check if 1099-R is handwritten, altered, or appears not to be a true 1099-R" should be used ONLY IF the 1099-R is truly suspect
- Check the corrected box if the corrected box is checked on the original 1099-R

- Check the appropriate box for address information – if the taxpayer's current address is not the address shown on the paper 1099-R, the "Check and make changes" box allows you to overwrite and change the address field to agree with the address shown on the 1099-R
  - If no address is shown on the 1099-R, leave the default address here

ITIN Returns

- When the taxpayer has an ITIN and presents a 1099-R with a SSN, the return cannot be e-filed
- A paper return may be prepared

1099R Payer's Name and Address

- **Payer's ID** – enter the EIN.
  - If TaxWise has encountered that EIN on another return, the name and address information will be filled in by TaxWise
  - Compare to the paper 1099-R and make corrections as needed
- Verify that the payer's name and ID match the 1099-R exactly as the e-file will reject if these do not match IRS records
- TaxWise will enter the Name Code field

1099R Dollar Value Boxes

- The entries in this section must be an exact match of the paper 1099-R (with rounding)
- Box 2:
  - If box 2 is blank, do not make an entry in *1099R* box 2 – the entire box 1 amount will be taxable unless
    - The box 7 code makes it not taxable, or
    - An amount is entered in the Exclusion Worksheet section of *1099R*, or
    - An amount is calculated in the Simplified Method section in the lower section of *1099R*
  - If box 2 is a zero (not just blank), confirm that the distribution is not taxable and, if necessary after entering the box 7 code, use L 5 of the Exclusion Worksheet to make the distribution nontaxable
- Box 3: Capital gain will be shown for a Charitable Gift Annuity (Code F)
  - Ordinary income piece
    - The difference between the distribution shown in box 1 and the capital gain shown in box 3 is ordinary income
    - TaxWise carries this net amount to *1040 Pg 1* L 15b / 16b
  - You must manually enter the capital gain piece – go to *Cap Gn Wkt*
    - Describe as **FROM 1099-R** in column *a*
    - The 1099 code is **C** (neither code A nor code B applies)
    - Sales price is the amount from 1099-R Box 3
    - Override S/T term to be long term
    - Use **F3** to remove the red in columns *b* and *c*
    - Go to the respective *8949* – use **F3** to remove the red in columns *b* and *c*
- Box 5: If the payer has calculated the taxable amount of the pension in box 2, generally the difference between boxes 1 and 2 will appear in box 5
  - For CSA 1099R from the Office of Personnel Management, see below on page 34
- Box 7: Take care to enter the code shown on the 1099-R
  - If multiple codes are shown (e.g. 4G), enter both codes
  - A complete list of codes is in Pub 4012, page D-20, and indicates the codes that are out of scope
  - In TaxWise, view a listing of all codes: **F1** > **Index** > **1099-R Codes for Box 7**
- If IRA/SEP box is checked:
  - Confirm with the taxpayer the type of IRA (traditional or Roth) and whether it is a Roth conversion
  - Conversion from a traditional IRA to a Roth IRA requires completion of Form 8606 – ***out of scope***
  - A qualified distribution from a Roth is in scope, even if coded "J" or "T" incorrectly (see *1099R-Exclusion Worksheet* Line 5 on the next page)
  - Distribution from a converted Roth is ***out of scope*** if any portion of the distribution is or could be taxable
    - Note that the 5-year rule applies to each conversion
  - A distribution from a SEP or SIMPLE plan is in scope if 100% is taxable

- "Check if disability and taxpayer is disabled" - entry below box 7 on the *1099R* MUST be checked if the pension or annuity is being paid as the result of disability (code 3 in box 7) and the client is under normal retirement age for that company
  - The pension amount will show up on *1040 Pg 1* L 7 as wages and eligible for EIC
- "Check to Force Form 5329" box
  - If there is an early distribution surtax because the taxpayer is less than 59½ years old, the surtax will show in the Other Taxes section of the *1040 Pg 2*, L 58 and no *5329* is required
  - However if there is an exception to the surtax, check the box to force a *5329*
    - On *5329*, the amount subject to the surtax is shown on line 1
  - To view the exception to surtax codes
    - Use **F1** to reach TWO Help
    - Click **Index** in the lower left panel
    - Click on **Exception Codes for Additional Tax on Early Distributions**
  - Enter the appropriate code on *5329* L 2 and the amount NOT subject to additional tax on L 3
- Box 9b is the total employee contributions to the plan
  - The annual recovery of basis or "investment in the contract" may appear in box 5
    - Caution: you cannot always tell if box 5 is recovery of employee contributions or something else unless it states so on the 1099-R or in an accompanying document
    - If the amount in box 5 is equal to box 1 minus box 2, it confirms that the box 5 amount is the annual recovery of the employees basis
  - If an amount appears in 1099-R box 9b and a taxable amount is not shown in box 2, the taxable amount on *1099R* box 2 remains blank and red until you complete the *1099R* Simplified Method section, described below on page 33 (this will also get the red out)
- If this is a Total Distribution (1099-R box 2b), the remaining employee contribution may appear in box 5
  - If box 5 is greater than box 1, there may be a loss on the annuity which may be deducted if itemizing - see Miscellaneous Deductions (2% and not 2%) below starting on page 44
- ***Note:*** Survivor benefits attributable to service by a public safety officer who is killed in the line of duty before 1/1/1997 are excludible from federal income tax
  - The taxpayer may receive a 1099-R form with -0- taxable in box 2
  - ***CA Note:*** CA does not conform to this provision and all benefits received are taxable
    - Enter an adjustment on *CA CA* L 21f and describe as 1099-R

1099R-State Section

- If provided on the 1099-R, enter the state ID without dashes or spaces (TaxWise truncates the carryforward for the following year after 9 numbers)
  - The state ID number is NOT the same as the federal ID number.
  - If the State ID is blank on the paper 1099-R, enter six nines (999999) (not required if there is no State withholding)
- The payer may or may not complete the state section
  - CA follows the federal rules for taxability for all CA residents for employer plan distributions
    - See IRA Basis Difference on page 53 if taxpayer made contributions that were not deductible
  - If the state distribution is blank, it is presumed to be the same as the federal gross distribution
- ONLY IF the state amount on the 1099-R is different than the federal amount
  - Override Box 14 and enter CA distribution amount
  - TaxWise does not take the difference to *CA CA* – a manual adjustment is needed
    - **Go to *CA CA*** and enter the adjustment on line 15 or 16, as appropriate using a *Scratch Pad*

1099R-Exclusion Worksheet

- The exclusion worksheet is used to input the amount that will not be taxable or to transfer the distribution information to form 8606 as necessary
- Before starting, and when finished, check line 15 or line 16 on *1040 Pg 1* to make sure entries produce the correct result
- A "transfer" is a DIRECT transfer of funds or securities from one qualified account to another, e.g. no money passes through the hands of the taxpayer
  - The taxpayer can do this as often as they wish, there is no limit

- Box 7 of the 1099-R should be coded "G" and the amount will show as non-taxable on line 15b or 16b
- No further entry is needed

- A "rollover" is a distribution from a qualified account followed by a recontribution of some or all of the distribution to another qualified account WITHIN 60 DAYS
  - A taxpayer is limited to one rollover from an IRA in any 12-month period (regardless of how many accounts there are)
    - ***Note:*** the IRS will not enforce the once-a-year limit until 2015
  - A conversion of a traditional IRA to a Roth IRA is ***out-of-scope***
- **Line 1**-Enter the amount that was rolled over (it may be less than the amount of the gross distribution)
  - Go to *1040 Pg1* Line 15b or 16b – TaxWise checks the "Check if rollover" box
  - For an IRA rollover, click on the red box to the left of the L 15b amount field, press **F9** to link to the New form 1040 IRA Rollover Explanation worksheet, and explain the rollover (e.g. IRA rolled from "bank ABC" to "bank DEF")
- **Line 2**- {Reserved}
- **Line 3**-amount rolled over to an HSA ***out-of-scope***
- **Line 4**-Retired Public Safety Officers (PSO) qualified health or LTC plan
  - A PSO includes a law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew
  - Confirm that the retiree was a PSO before retirement
  - Enter qualified amount (up to $3,000) for health and/or LTC insurance paid from the retirement plan
  - The amount may be in box 5 of the 1099-R or in a letter from the plan
    - Do not duplicate on *A Detail* medical deductions
    - But, if the amount exceeds $3,000, the balance may be input in *A Detail*
- **Line 5**- Excludible amount
  - If the taxable amount is determined (1099-R box 2b NOT checked) and is shown as zero (0) on the 1099-R box 2, enter the entire amount of the distribution on L 5
  - If the distribution is from a Roth IRA and the payer has used code J or T in box 7, but the taxpayer has satisfied all the requirements so that none of the distribution is taxable, enter the entire amount of the distribution on L 5 – see Pub 4012 page D-24
  - Do not enter an amount in any other circumstances as that would be out-of-scope
- The box: "…ever made nondeductible IRA contributions" will add an incomplete *8606* (red)
  - Only Part I of *8606* is in scope, complete using information from *8606* in the prior year's return
- The box: "…conversion from a traditional IRA to a Roth" would add an incomplete *8606* Part II (red)
  - If part or all of the distribution was converted to a Roth, the return is ***out-of-scope***

1099R Simplified Method (lowest part of form)

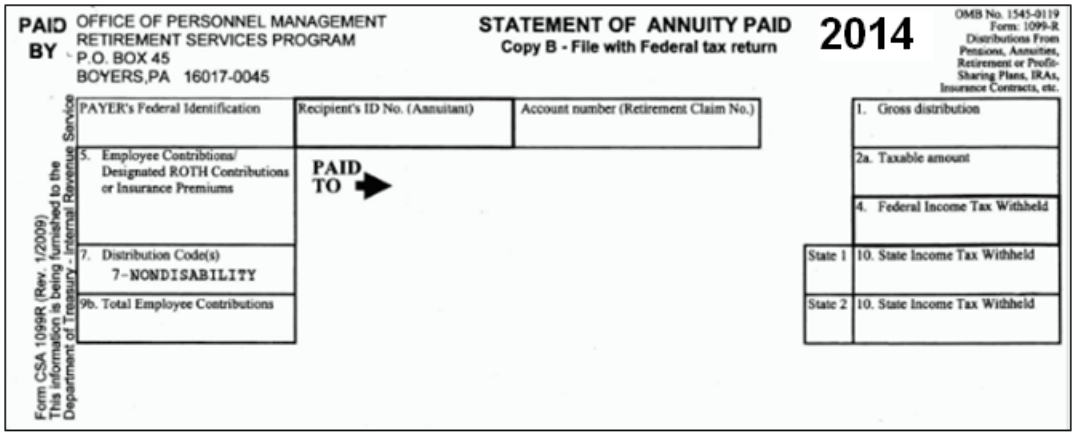
- If the employee made after-tax contributions toward the retirement plan, a portion of the payment is not taxable
- ***Note:*** If the starting date of the payments was prior to July 2, 1986 and there is no entry in 1099-R box 2, the entire amount of the taxpayer's contribution probably would have been recovered under the "Three Year Rule" and you should clear the red from box 2 with **F3**
  - The entire amount in box 1will show as taxable on *1040 Pg 1*
- If the annuity start date is after July 1, 1986, 1099-R box 2 is blank, and there is a total employee contribution amount in box 9b
  - Enter the total amount of employee contributions from 1099-R, box 9b on L 1 of the simplified method worksheet
  - Check the appropriate box for the primary annuitant's age when the annuity payment started even if the employee subsequently died (not his or her current age)
    - If the employee died before starting the annuity and the surviving spouse is collecting the benefits, use the surviving spouse's age only
- Depending on the annuity start date, you MAY have to check one of the two boxes relating to annuity starting date
  - ***Note:*** that the second box is used ONLY if this is a joint or survivor annuity, in which case the combined ages at the time the annuity started must also be checked
  - ***Note:*** the joint or single determination is made when the annuity starts; subsequent changes are disregarded, e.g. death or remarriage

- Errors in checking these boxes WILL result in an incorrect tax-exempt amount
- For a Joint and survivor annuity, check the combined ages of both annuitants at the annuity starting date
  - This is true even if an annuitant dies after the start of the annuity payments

- L 4 – enter the number of months for which payments were received during the tax year, which will usually be 12 except for the year in which payments started or ended
- L 5 – enter the amount recovered tax free in prior years
  - This amount carries forward from the prior year
  - If the amount does not carry forward, you need to either
    - Look at last year's tax return to determine this amount, or
    - Calculate the amount using the monthly amount computed by TaxWise times the number of months prior to the current tax year
    - This line must be completed if the client has been receiving their pension for more than 17 years as they may have used up all their basis
  - ***Note:*** There is a small window for those whose benefits began 7/1/86 – 12/31/86
    - The computed annual exclusion can be taken as long as benefits are received
    - This includes the survivor's benefits if the annuitant originally chose a joint and survivor annuity
    - In this rare case, do not complete L 5 of the simplified worksheet and note this in the preparer notes at the bottom of the *Main Info* sheet or taxpayer diary
  - ***Note:*** You can use the pension calculator at http://aarp.bogarthome.net/Annuity-Pension%20Calculator.htm to verify the allowable exclusion for all years of the annuity and it shows the TWO entries needed
  - The non-taxable amount is calculated by TaxWise and taxable amount is reflected in box 14 and on *1040 Pg 1* L 16b
  - The taxable amount in *1099R* box 2 will remain at 0 (this is ok)
- ***Note:*** Print the simplified method and attach to client's copy of their return for future reference
  - Use PrtScn to capture the image and print it
- ***CA Note:*** If the annuity start date was after 7/1/1986 and before 1/1/1987, the 3-year rule could have been used for CA - even though it was not allowed for federal
  - If so, make an adjustment on *CA CA* L 16 to increase the taxable retirement income for an amount equal to the federal simplified method basis recovered (*1099R* simplified worksheet L 6)

Office of Personnel Management (OPM) CSA 1099R

- The OPM reports annuity payments using the CSA 1099R, which places information in a different sequence

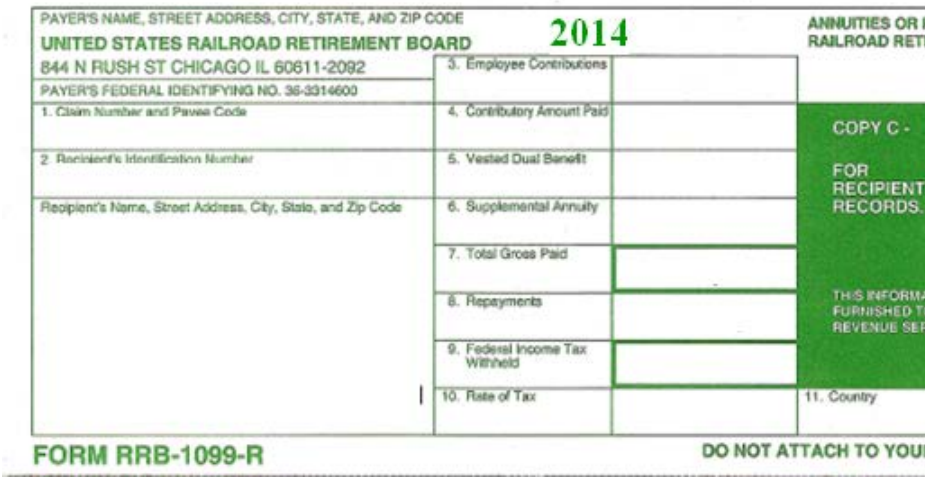

PAID BY
OFFICE OF PERSONNEL MANAGEMENT
RETIREMENT SERVICES PROGRAM
P.O. BOX 45
BOYERS,PA 16017-0045
STATEMENT OF ANNUITY PAID
Copy B - File with Federal tax return
2014
OMB No. 1545-0119
Form: 1099-R
Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
PAYER's Federal Identification
Recipient's ID No. (Annuitant)
Account number (Retirement Claim No.)
1. Gross distribution
2a. Taxable amount
5. Employee Contributions/ Designated ROTH Contributions or Insurance Premiums
PAID TO
4. Federal Income Tax Withheld
7. Distribution Code(s)
7-NONDISABILITY
State 1
10. State Income Tax Withheld
9b. Total Employee Contributions
State 2
10. State Income Tax Withheld
Form CSA 1099R (Rev. 1/2009)
This information is being furnished to the Department of Treasury - Internal Revenue Service

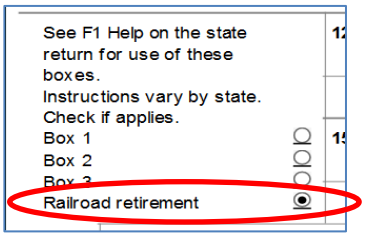
- See IRS Publication 721 for additional information.
- Box 2 – if the annuity starting date is after July 1, 1986, but before November 19, 1996, the taxable amount box may show "unknown"
  - In this case complete the simplified method worksheet as detailed above
- Box 5 on this form can be
  - The amount of the employee's basis recovered this year (CSA 1099R box 1 minus box 2), OR
  - Health insurance premiums that are deductible as medical on *A Detail*, if the amount includes only premiums for FEHB/FEP and Medicare B and/or D
  - If the retiree is having dental, vision or LTC insurance premiums deducted they will not be included in box 5

- The only way to see these other premiums is to see the taxpayers Form RI 38-38 Notice of annuity adjustment – codes are shown on the back of the form
  - 42 is Federal Dental Insurance
  - 43 is Federal Vision insurance
  - 45 is a catchall that includes LTC
- Voluntary Contributions - If the TP is receiving additional payments resulting from voluntary contributions to the retirement fund, the additional portion of the annuity due to the voluntary contributions must be reported separately for tax purposes and is shown at the bottom of the 1099-R statement
- ***CA Note:*** Remember that CA standard deduction is lower and taxpayer may itemize for CA and not for federal

RRB-1099-R – green form/"non-Social Security and Tier 2"

- This is treated as a pension (see Pub 575) or annuity and is not taxed by California


PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE
UNITED STATES RAILROAD RETIREMENT BOARD
844 N RUSH ST CHICAGO IL 60611-2092
PAYER'S FEDERAL IDENTIFYING NO. 36-3314600
2014
1. Claim Number and Payee Code
2. Recipient's Identification Number
Recipient's Name, Street Address, City, State, and Zip Code
3. Employee Contributions
4. Contributory Amount Paid
5. Vested Dual Benefit
6. Supplemental Annuity
7. Total Gross Paid
8. Repayments
9. Federal Income Tax Withheld
10. Rate of Tax
11. Country
COPY C - FOR RECIPIENT RECORDS.
ANNUITIES OR RAILROAD RET
FORM RRB-1099-R
DO NOT ATTACH TO YOU



Amounts on the RRB-1099-R	Enter in TaxWise on a *1099R*
EIN = 36-3314600	Payer's ID
Box 3 Employee Contributions	Box 9B and simplified method L 1
Box 4 Contributory Amount Paid	Not entered
Box 7 Total Gross Paid (sum of boxes 4, 5, & 6)	Box 1
	Enter "7" in Box 7
Disability box	Check the box if the recipient is disabled and below normal retirement age
Box 8 (repayment of benefits included in a prior year)	There may be a claim repayment deduction if itemizing - see Miscellaneous Deductions (2% and not 2%) below starting on page 44
Box 9 Federal Income Tax Withheld	Box 4
Box 12 Medicare Premium Total	Schedule *A Detail*

CA Note: In TaxWise *1099R*, to the left of boxes 12 to 17 are a series of boxes. You MUST click Railroad Retirement as this exempts the payment from CA taxes

Foreign Government Pensions

- Foreign government pensions are ***out-of-scope*** except for Canadian and German Social Security – see Social Security below
- A Canadian RRSP (similar to an IRA) is ***out-of-scope***
  - ***CA Note:*** CA treats the account as a taxable investment account. Income earned in a Canadian RRSP and capital gains or losses are currently includible in income - ***out-of-scope***

LINE 17------ RENTAL REAL ESTATE, ROYALTIES, TRUSTS (*limited*)

- If there is a 1099-Misc with amounts in Box 1 rents or the taxpayer received cash rents for which there is no 1099-MISC, and no associated expenses, then the return is in-scope

- If there is a 1099-Misc with amounts in Box 2 royalties and these royalties do NOT relate to the personal services of the taxpayer (e.g. book royalty) and no associated expenses, then the return is in-scope and the income is reportable on *Sch E*
  - If the royalties relate to the personal services of the taxpayer, the income should be reported on *Sch C*
- Go to *Sch E Pg 1*
  - Answer question A
  - Describe the property/ source on L 1 and then go to L 3 or 4 and link to the *1099 MISC*
  - If the taxpayer received rent but did not receive a 1099-MISC, enter the amount received on L3
- If there is a K-1 with royalty income and no expenses, input on *Sch E Pg 1*, see Simple K-1s and Prepaid Funeral Plans above on page 23
- A K-1 with a rental income or loss is ***out-of-scope***

LINE 18------ FARM INCOME (*out-of-scope*)

LINE 19------ UNEMPLOYMENT COMPENSATION

- Go to *1099G*
- Unemployment Compensation is fully taxable for federal
- Check the appropriate box at the top to indicate if payment was made to the taxpayer or spouse
- Do not enter "CA" on Line 6 (state tax withheld) unless there was CA tax withheld
- The California form has two parts: Unemployment and Family Leave
  - Both are reported on Line 19 as unemployment
  - If you have both, add a new 1099-G to enter the Family Leave
- Amounts repaid for the current year will reduce the taxable income for the current year
- Any amount repaid for a prior year must be deducted on *Sch A*, as a miscellaneous deduction (subject to 2% floor if $3,000 or less) and cannot offset the amount received for the current year
- ***CA Note:*** Unemployment or family leave payments are NOT taxable by CA
  - TaxWise makes the adjustment

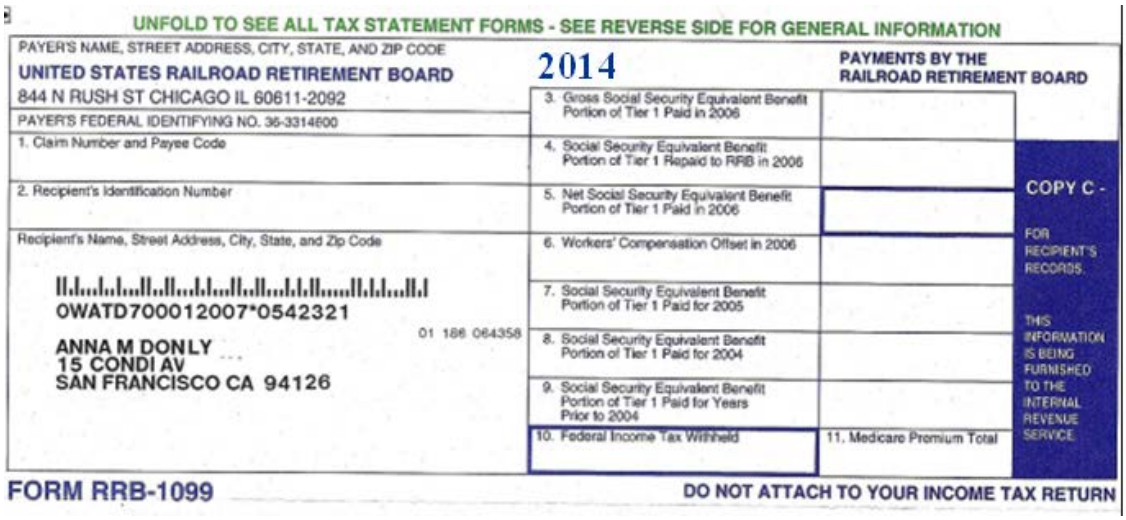
LINE 20------ SOCIAL SECURITY AND RAILROAD RETIREMENT BENEFITS

- Up to 85% of the social security payments may be taxed
- Computationally, if AGI plus tax-exempt income plus one-half of social security is less than $25,000 ($32,000 for MFJ), none of the social security is subject to tax
- Tax implications of social security payments
  - Benefits received by children of a deceased taxpayer are NOT taxable on a parent's return
  - Disability Income (SSDI/SSI) is NOT taxable and the taxpayer should not have received a SSA-1099 for such payments – if they have a 1099 form, it is potentially taxable income (depends on total income)
- Canadian or German Social Security are treated the same as U.S. social security for U.S. persons
  - Distributions from the Canada Pension Plan (CPP), Quebec Pension Plan (QPP), Old Age Security (OAS) and Germany Social Security received by U.S. residents should be treated as social security benefits and reported on *1040 Wkt 1*
  - ***CA Note:*** These foreign government pensions **are taxable** on the California return
    - TaxWise does **not** make the necessary adjustment
      - Go to *CA CA* L 21f
      - Enter a description and the amount as an addition
  - IRS publishes "Yearly Average Currency Exchange Rates": http://www.irs.gov/businesses/small/international/article/0,,id=206089,00.html
  - Other currency exchange rate sources are
    - Wall Street Journal
    - www.Oanda.com
    - www.XE.com
    - www.X-rates.com
- Complete the Social Security And Railroad Tier 1 Benefits section on *1040 Wkt 1*
  - Both taxpayer and spouse are reported on the same worksheet
  - Enter amount from SSA-1099, Box 5 as "Social Security received this year"
    - If the amount is negative, the return is ***out-of-scope***

        - If there is more than one SSA-1099, combine amounts on all forms to see if the amount is positive or negative. If positive, use the net positive number
    - Enter amount from RRB-1099 (blue form) Box 5 as "Railroad tier 1 received this year"
    - Enter the amount of Medicare B, C and D premiums in the box labeled "Medicare to Schedule A"
        - Do this as a matter of routine so that it won't be forgotten if the taxpayer itemizes deductions
    - Enter any federal tax withheld in the appropriate boxes
    - The remainder of the worksheet will calculate automatically, and place the taxable amount, if any, on *1040 Pg 1* L 20 a/b
- Social security death benefits (usually $255) received by spouse or children of a deceased taxpayer are NOT taxable
- ***CA Note:*** U.S. Social Security or Railroad tier 1 (also tier 2) is NOT taxed by California
    - Verify adjustment on *CA CA*

RRB-1099 – blue form/"Tier 1 social security equivalent"

Amounts on the RRB-1099	Enter in TaxWise on *1040 Wkt 1*
Box 5	Railroad Retirement (not social security) for taxpayer or spouse
Box 10	Federal tax withheld for taxpayer or spouse
Box 11	Medicare to Schedule A detail for taxpayer or spouse


UNFOLD TO SEE ALL TAX STATEMENT FORMS - SEE REVERSE SIDE FOR GENERAL INFORMATION

PAYER'S NAME, STREET ADDRESS, CITY, STATE, AND ZIP CODE
UNITED STATES RAILROAD RETIREMENT BOARD
844 N RUSH ST CHICAGO IL 60611-2092
PAYER'S FEDERAL IDENTIFYING NO. 36-3314600

2014

PAYMENTS BY THE RAILROAD RETIREMENT BOARD

1. Claim Number and Payee Code
2. Recipient's Identification Number
Recipient's Name, Street Address, City, State, and Zip Code
0WATD700012007*0542321
01 186 064358
ANNA M DONLY
15 CONDI AV
SAN FRANCISCO CA 94126

3. Gross Social Security Equivalent Benefit Portion of Tier 1 Paid in 2006
4. Social Security Equivalent Benefit Portion of Tier 1 Repaid to RRB in 2006
5. Net Social Security Equivalent Benefit Portion of Tier 1 Paid in 2006
6. Workers' Compensation Offset in 2006
7. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2005
8. Social Security Equivalent Benefit Portion of Tier 1 Paid for 2004
9. Social Security Equivalent Benefit Portion of Tier 1 Paid for Years Prior to 2004
10. Federal Income Tax Withheld
11. Medicare Premium Total

COPY C - FOR RECIPIENT'S RECORDS.
THIS INFORMATION IS BEING FURNISHED TO THE INTERNAL REVENUE SERVICE.

FORM RRB-1099
DO NOT ATTACH TO YOUR INCOME TAX RETURN

- ***Note:*** This is equivalent to Social Security and it is **not** taxed by California; TaxWise makes the adjustment

Lump Sum Payments of Social Security

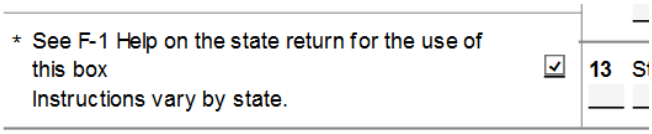
- Enter total social security received in the normal manner
- When payments are received in the current year that are attributable to prior years, there is an alternate calculation of the amount that can become taxable
    - The amount computed as taxable is includible in the current year's return (not the prior year)
    - If including the entire amount received in the current year's return does not make any of the social security taxable, STOP – you do not need to complete the *Lump Sum Wkt*
- If there is a lump sum payment for a prior year AND the prior year tax return is available, proceed as follows
    - Go to lump sum payments at the bottom of *1040 Wkt 1*
    - Enter the amount received attributable to 2014 only for taxpayer / spouse (the rest of the form is completed by TaxWise from your entries on *Lump Sum Wkt*)
    - Amounts taxable from previous years – link to *Lump Sum Wkt* and complete the form
    - If there is another previous year, add another *Lump Sum Wkt*
        - A separate worksheet is required for each prior year

LINE 21------ OTHER INCOME

- Use line 21 to report any income not reported elsewhere in the return, such as gambling winnings, prizes, awards, jury duty pay, Alaska Permanent Fund dividends, and recovery of itemized deduction
    - ***Note:*** hobby income and other activities not entered into for profit are ***out-of-scope***
- Go to *1040 Wkt 7*

Gambling Winnings-Form W-2G

- Link from *1040 Wkt 7* L 1 to *W2G* or add it
  - Check the box for taxpayer or spouse at the top of the form
  - The Payer's federal ID number (EIN) is required
  - TaxWise will calculate the name code
  - Verify that the payer's name and ID match the W-2G exactly
  - Complete the money fields as applicable, matching the paper W-2G
- Input each W-2G
- ***CA Note:*** California Lottery winnings are not taxed by CA
  - The box on the lower left-hand side of this form should be checked **ONLY when CA Lottery winnings** are being reported
  - This check mark results in the proper adjustment on *CA CA* for the winnings and associated losses



- If the taxpayer has winnings not reported on a W-2G, enter the sum of these gambling winnings on a blank line of *1040 Wkt 7* and describe appropriately
- Gambling losses to be transferred to Schedule A
  - You can input total losses on one *W2G* (they do not have to match payer-by-payer)
    - But put CA Lottery losses on the CA Lottery winnings *W2G*
  - Gambling losses can be deducted on Schedule A up to the amount of the reported winnings
  - TaxWise will limit aggregate losses to the maximum of reported winnings
- ***Note:*** If you entered gambling winnings and did not use *W2G*, you may need to manually apply the limits on losses
  - For federal, enter all gambling losses, up to all winnings on *Sch A*, Line 28 by linking to "*Other Deducts* – Schedule A Line 28 ..." worksheet
  - For CA, enter an adjustment to remove California Lottery losses
    - Go to *CA A* Line 28 and link to a *Scratch Pad*.
    - Enter the unallowable CA lottery losses as a negative amount
- If the Taxpayer takes the standard deduction, the losses cannot be deducted
- ***Note:*** If the Taxpayer maintains copious records of their gambling, losses from the same session as winnings may reduce the amount of winnings reported (but not below zero)
  - Input the same-session losses on *1040 Wkt 7*, Line 16 – 30
  - Losses from a different gambling session can be claimed on *Sch A* if itemizing only

1099 MISC Income

- Form 1099-MISC can represent several different types of income
- Look at the 1099-MISC carefully to determine the type of income
  - Boxes 5 and 8-15 are ***out of scope***
- 1099-MISC income for boxes 3 and sometimes 7 (if it is not business income) is reported on *1040 Wkt 7*, L 2 and linking to *1099 MISC*
- **Do not use the *1099 MISC* under schedule C except for amounts reportable on *Sch C Pg 1***
- Copy the information from the paper 1099-MISC to TaxWise *1099 MISC*
- **Indian Tribal Income** reported on 1099-MISC, Box 3, represents a portion of the profit from a casino or other business on tribal lands
  - Always taxable for federal, not subject to self-employment tax
  - ***CA Note:*** Indian Tribal Income is exempt for CA **ONLY IF** the taxpayer lives on tribal land
    - A manual adjustment on *CA CA*, Line 21(f) is required if exempt from CA taxes

Employee Unreported Tip Income – Form 4137

- Tip income is reported on Line 7 of Form 1040 as part of wages if from employment - see instruction for Line 7 above
- If tips are from the taxpayer's business, they should be reported on *Sch C*
- Tips should NOT be reported as Other Income

Payments From Qualified Education Program-Form 1099-Q

- This form reports gross distributions from a qualified tuition program (529 plan) or a Coverdell ESA
  - Coverdell ESA plans are ***out-of-scope***
- If these distributions were used for tuition and fees, they are not taxable
- If the distribution exceeds the amount of qualified expenses, it is ***out-of-scope***

Distributions From LTC Plans-Form 1099-LTC

- **Go to *8853 Pg 2*** by linking from *1040 Wkt 7* L 11
- LTC payments may be based on a per-diem basis or as a reimbursement of actual expenses incurred
  - Per-diem plan payments are not taxable to the extent of $320 per day or actual costs incurred, if greater
- If there are multiple payees under the insurance contract, refer the taxpayer to a paid preparer
- Complete questions 14 – 16 – some answers may come from the 1099-LTC
- Enter the 1099-LTC box 1 amount on *8853 Pg 2* L 17 and, if from a qualified LTC insurance contract (see box 4 on 1099-LTC), enter again on L 18
- Complete the rest of Section C
  - If the per-diem payments received are less than $320 per day, none of the payments will be taxable
    - In this case, it is not necessary to enter the actual costs
- TaxWise will carry the taxable amount, if any, to *1040 Wkt 7* L 11
- Unreimbursed medical expenses can be deducted on *A Detail*, if itemizing

HSA Distribution

Note: HSA's are ***out-of-scope*** unless the Counselor and Reviewer are certified in the area

- If a distribution is received, Form 8889 and Form 1040 must be filed even if there is no other income
- Go to *8889 Pg 1*
- The 1099-SA distribution is entered on *8889* Part II
- If all of the distribution was used for qualified medical expense, there is no taxable amount
- If used for other than qualified medical expense, the taxable payment transfers to *1040 Wkt 7* L 12
- There is a 20% addition to tax for non-qualified distributions that transfers to *1040 Pg 2* L 60
- Unreimbursed medical expenses can be deducted on *A Detail*, if itemizing
- ***CA Note:*** CA does not recognize HSA – see Health Savings Accounts in CA below starting on page 54

Cancellation Of Debt

Note: COD from credit card debt is part of the advanced certification and in scope for Tax-Aide

- Cancellation of credit card debt results in taxable income unless an exception applies – see Pub 4012 D-32
- Any exception would make the return ***out-of-scope*** such as
  - Insolvency at the time of the debt forgiveness
  - Debt incurred for deductible items that have not been deducted or for which less than full tax benefit was received
- Enter the amount of credit card debt that was cancelled, and is therefore taxable, on *1040 Wkt 7* with an appropriate description
- Note all income must be reported on the return, whether or not a 1099 was received

Medicaid Waiver Payments

- CA's In-Home Supportive Services pays for the in-home care of certain needy individuals and reports the payments on Form W-2 (the W-2 payer's address is in Roseville)
- In notice 2014-7, the IRS clarified that when such payments represent Medicaid Waiver Payments or difficulty of care payments the payments may be excluded from income
  - To qualify, the care provider and the care recipient must reside together
  - See Pub 525 for more details
- If the taxpayer is eligible to exclude the income and wishes to exclude the income
  - **Go to 1040 Wkt 7** and on the next available blank line, enter the full amount received that may be excluded as a negative item with the description "Notice 2014-7"
  - It is all-or-nothing – the taxpayer may not exclude a portion of the income
- ***Caution:*** when the income is excluded, it is no longer earned income for EIC or other benefits and you may need to reduce earned income in these calculations for the amount of W-2 income excluded as Medicaid Waiver Payments (exact TaxWise specifics are not available as of this writing)

  - **Go to *2441 Pg 1***
  - **Go to *Sch EIC Wkt***, Figure your credit section at the bottom
  - **Go to *8812 Pg 2*** Part II
  - ***Note:*** in each case, reduce earned income as needed
    - If no special line is provided, use a scratch pad to adjust the earned income amount
    - Avoid overrides as other calculations may be affected
- You should test which way is most advantageous for the taxpayer: to exclude or to not exclude
  - ***Note:*** if excluded, the waiver income is not part of MAGI for ACA purposes (neither 8962 nor 8965)
- ***CA Note:*** CA conforms to the federal treatment stated above
- ***CA Note:*** Double check the nonrefundable dependent care credit on *CA 3506* to make sure TaxWise has carried the correct amount of earned income

Other Income Without A Supporting IRS Form

- **Go to *1040 Wkt 7*** and enter on appropriate line, describe source if necessary
- This includes poll worker income, medical study income, jury duty pay, among others

Entering Multiple Types Of Other Income (The TYPE Field)

- All types of other income are entered on *1040 Wkt 7*
- If a preprinted line is used, the first such used line description will carry to *1040 Pg 1 L 21*
- If no preprinted line is used, manually enter an appropriate description in *1040 Pg 1 L 21* TYPE field
- Be sure to verify that the total shown on Line 21 is correct and all other income amounts have been reported

LINE 22------ TAXWISE EARNED INCOME

- TaxWise adds the amounts from *1040 Pg 1 L 7* (wages, etc.) and *1040 Pg 1 L 12* (Sch C)
- If the Taxpayer can be claimed as the dependent of another, the standard deduction of $900 can be increased by earned income up to the regular standard deduction amount
  - If there is an amount in Line 21 and that amount is "earned" income, you will need to add a *Scratch Pad* entry to increase the amount of earned income for correct calculation of the standard deduction
- ***Note:*** Earned income for EIC is limited to taxable *1040 Pg 1 L 7* (wages, etc.) and self-employment income (Sch C)
- ***Note:*** IRA deductions are limited to compensation – see Line 32 IRA Deductions below at page 41

ADJUSTMENTS TO INCOME

LINE 23------ {RESERVED}

LINE 24------ CERTAIN BUSINESS EXPENSES (*out-of-scope*)

Limited exception for Military returns, if certified

LINE 25------ HEALTH SAVINGS ACCOUNT

Note: HSA's are ***out-of-scope*** unless the Counselor and Reviewer are certified in the area

- Refer to Pub 4012 E-1
- Enter amount contributed to HSA on *8889*
- Amounts contributed by an employer are shown on the W-2 as code W in box 12 and are transferred to *8889* Part1 (these are not deductible)
- The client should provide Form 5498-SA that shows the amount of contributions during the year
- Contributions may be made up to April 15, 2015 if they are designated for 2014
- ***Note:*** a contribution in excess of the amount allowed as a deduction is subject to a 6% addition to tax using *5329* Part VII, which is ***out-of-scope***
- ***CA Note:*** CA does not recognize HSAs – see Health Savings Accounts in CA below starting on page 54
  - TaxWise automatically removes the HSA deduction from the CA return on *CA CA*

LINE 26------ MOVING EXPENSES (*out-of-scope*)

Limited exception for Military returns, if certified

LINE 27------ DEDUCTIBLE PART OF SELF EMPLOYMENT TAX

- This amount is transferred from *Sch SE* by TaxWise and represents the employer's part of the tax (7.65% of net business income)

LINE 28------ SELF EMPLOYED SEP, SIMPLE PLANS (*out-of-scope*)

LINE 29------ SELF-EMPLOYED HEALTH INSURANCE (*out-of-scope*)

LINE 30------ PENALTY ON EARLY WITHDRAWAL OF SAVINGS

- Enter on the *Interest Stmt* under Early Penalty

LINE 31------ ALIMONY PAID

- Refer to Pub 4012, p. E-3 for rules
- Alimony does NOT include child or family support, which are NOT deductible
- Enter both the recipient's social security number and the amount
- If alimony was paid to more than one individual, highlight the SSN field and link to an *Alimony Paid* worksheet
  - Enter each recipients SSN(s) and amount(s) paid
  - TaxWise brings the total forward to *1040 Pg 1 L 31*

LINE 32------ IRA DEDUCTION

- The taxpayer, and spouse if filing jointly, may each make contributions, subject to age and total compensation income limits as shown on *IRA Wkt*
- If covered by a retirement plan, they may be able to take an IRA deduction subject to AGI limits
- Go to *IRA Wkt* - Traditional, Roth IRAs, ESAs Worksheet, enter contributions to a Traditional IRA on L 10 and to a Roth IRA on L 20
- TaxWise will check the contributions against the current year's limits
- Non-deductible contributions require completion of *8606* Part I
  - Enter the basis amount from the prior year's Form 8606 on *8606 L 2*
  - Complete L 4, if applicable
- Traditional or Roth IRA contributions in excess of the permissible amount are subject to an annual addition to tax as long as the excess continues (*5329* Part III or Part IV), which is ***out-of-scope***

LINE 33------ STUDENT LOAN INTEREST DEDUCTION

Go to *1040 Wkt 2* Student Loan, Education Worksheet

- Refer to Pub 4012, p. E-4 for rules
- Enter interest paid on line 1of the worksheet
- TaxWise calculates the allowable adjustment amount

LINE 34------ {RESERVED}

LINE 35------ DOMESTIC PRODUCTION ACTIVITIES (*out-of-scope*)

LINE 35------ OTHER

Jury Duty pay given to employer is input on this line, everything else on this line is ***out-of-scope***

TAXABLE INCOME CALCULATION

LINE 40------ DEDUCTIONS

Standard Deduction

- The Standard Deduction is the default
- See Pub 4012, p. F-1 for persons not eligible for the standard deduction
- If there is any doubt whether to itemize, complete *Sch A*
- ***CA Note:*** This is particularly important for CA because the standard deduction is less than for federal

Schedule A

- TaxWise will make the correct calculations for both federal and state and select the better of the standard deduction or itemized deductions
- *Sch A* and *A Detail* have boxes for TSJ (Taxpayer, Spouse, and Joint) and fields for Taxpayer and Spouse mileage
  - These do not have to be checked and all mileage can be entered under taxpayer

Sch A- Line 1- Medical Expenses

RULE:* Medical expenses (deductions) are entered on the *A Detail* worksheet located in the Tree below *Sch A

- Medical miles
  - Use the miles driven section for costs associated with a personal vehicle
  - All other transportation costs (bus, parking, tolls, cab fare, airplane tickets, etc.) are entered under other medical expenses
- Insurance Premiums
  - Medicare premiums are entered on social security *1040 Wkt 1* and automatically transfer to *A Detail* – they should not be entered again
  - Include any other qualifying payments for health insurance premiums - do not include pre-tax medical
  - Long Term Care Insurance may be deducted up to certain limits based on the age of the person at the end of the tax year.
    - Enter the total payment for each person
    - TaxWise will calculate the allowable amount
- Other unreimbursed medical expenses – it is not necessary to list each individual service provider; just list by category–e.g., doctors, dentist, prescriptions, transportation, etc. using summary data furnished by Taxpayer
- If additional space is required, link from "F9 for additional worksheets" to a NEW *Addl A Wkt*
- TaxWise will calculate the 10% (7.5% if age 65 or older, through 2016) of AGI nondeductible portion
- ***CA Note:*** Medical expenses reimbursed by an HSA are not deductible for federal but are deductible for CA
  - When *8889* is properly completed, TaxWise carries HSA-reimbursed medical expenses to CA Sch A
  - See Health Savings Accounts in CA starting on page 54
- ***CA Note:*** For taxpayers under age 65, the nondeductible portion of medical expenses remains 7.5% of AGI for CA – TaxWise makes the correct calculation

Sch A- Line 5- State and Local Taxes Paid

- State and local income taxes flow to *Sch A* from *W2*, all 1099 series forms, *F/S tax paid*, and CASDI entered in the California W-2 Only section of *W2*

***Note:* the following assumes that the sales tax deduction option is extended to 2014**

- Taxpayers can elect to deduct the LARGER of state income taxes OR state sales taxes (which usually comes from a table based on the amount of the taxpayer's income) on their federal return

Go to *Sales Tax (CA)* [worksheet]

- TaxWise computes lines 1, 2, and 4 in the upper portion
  - Enter any non-taxable income such as child support and gifts, SSI, SSDI on line 3
- L 1 should be defaulted to CA in the lower portion
- L 2 of the lower section is defaulted to NO for CA
- L 3 of the lower section should be defaulted to Yes (or No if there is no local sales tax) and your local rate should be entered
  - If L 3 is Yes, enter the blended general state sales tax rate of 7.5 on Line 4
- Line 8 of the lower section should be completed with any additional sales tax on a motor vehicle, aircraft, mobile home, or building materials

- ***Hint:*** If you don't know the sales tax rate for the taxpayer's city, you can use the IRS sales tax calculator at http://www.irs.gov/Individuals/Sales-Tax-Deduction-Calculator
- TaxWise will use the better of income tax or sales tax for federal Sch A
- If there is a state tax refund which may be taxable next year, the preparer will need the sales tax amount for the calculation for next year's return
  - Note the sales tax deduction amount calculated using the Preparer notes or Taxpayer Diary and/or
  - Handwrite the sales tax amount on the taxpayer's copy of the return

Sch A- Line 6- Real Estate Taxes

- CA real estate taxes are generally paid in two installments due in November and February, but not late until a month later – the amount entered should be the amount actually paid in the tax year for the taxes
- There is a line for your principal residence real estate tax
- There is another line for other real estate tax – note that the real estate can be anywhere (U.S. or foreign)
- CA received IRS guidance that real estate taxes do **not** have to be based on the value of the property – this means that the whole amount paid will generally be deductible
  - Two types of charges are **not** deductible:
    - Services provided to the property (like trash collection, sewer service fee, etc.)
    - Direct assessments for improvements that tend to increase the value of the property (like curbs and sidewalks) – when not deducted, these direct assessments can be added to the basis of the property

Sch A- Line 7- Personal Property Taxes, Not Listed Above

- The CA Vehicle License Fee (VLF) qualifies as a personal property tax
- The total amount paid to DMV includes non-deductible registration fees and may include unpaid parking tickets – only the VLF amount is deductible.
  - This amount may also be listed on the registration card in their vehicle (near the bottom coded as "Lxxxx")
- Also include the tax portion of other vehicles registrations (boat, RV, etc.)

Sch A- Line 8- Other Taxes

- Such as foreign income taxes when not claiming a foreign tax credit– see Pub 17
- ***CA Note:*** No deduction is permitted for foreign income taxes
  - If foreign income taxes are deducted for federal, an adjustment must be made on *CA CA* L 39 second line

Sch A- Line 10- Interest Paid

- Interest paid on a mortgage(s), and any points paid during the tax year in conjunction with the mortgage(s) up to $1 million, is deductible when the loan is used to buy or improve your main home
- Interest paid on a new loan to refinance an old loan that was used to buy or improve your main home is deductible; points paid on a refi must be spread over the life of the new mortgage
- Interest paid on mortgages to buy or improve a second home may also be deductible
- Interest on a home equity loan may also be deducted for loan amounts up to $100,000 ($50,000 MFS)
- Late payment charges are deductible as interest in situations where the interest is deductible
- Motor homes and boats that provide basic living arrangements generally qualify as main or second homes
- Usually reported on form 1098
- Total the interest and points paid and enter the total on the line labeled "Home mortgage interest and points from Form 1098, not listed above"
  - If there are multiple mortgages, link to a *Scratch Pad* to enter each interest item
- If home mortgage interest is paid to an individual, complete the information at Line 11
- ***Note:*** nothing is paid on a reverse mortgage, so there is no deduction
- Refer to Pub 17 for interest deduction rules

Sch A- Line 12- Points Not Reported On Form 1098 (Paid For A Refinance)

- These can be amortized over the life of the loan to the extent that the interest on the loan is deductible
- Divide the points amount by the months of the loan (30 years =360 months) and multiply by the months that the loan existed this tax year. Enter the result directly on this line
- When the loan is refinanced or paid off, the remaining deductible portion of the points from the prior loan may be deducted

Sch A- Line 13- Total Mortgage Insurance Premium {EXPIRED}

- **The following applied to tax years before 2014**
- Premiums ("PMI") paid and/or accrued for qualified mortgage insurance (reported on the 1098) in connection with home acquisition debt on a qualified home are deductible
  - The home must have been purchased after 2006
  - Mortgage insurance provided by the Department of Veterans Affairs and the Rural Housing Service is commonly known as a funding fee and guarantee fee, respectively
    - For contracts issued in 2013, these also qualify
- Report total qualified mortgage insurance premiums and TaxWise will determine the allowed amount

- ***CA Note:*** This deduction is not allowed on the CA return and is automatically adjusted by TaxWise

Sch A- Line 16- Contributions – Cash

***RULE:* Charitable contributions are entered on the *A Detail* Worksheet.**

- Includes checks, money orders, or credit card payments
- While we do not need to see any proof, the client should know that no deduction is allowed unless the taxpayer has either:
  - Bank records (canceled check or bank/credit account statement) OR
  - Written acknowledgment from the charity documenting charity name, amount and date
- Contributions of $250 or more **must** have bank record AND written acknowledgement, which affirms the value of any property or service received
- The deductible contribution is the amount given less the value of any property or service received
- Enter mileage driven by the taxpayer(s) for unreimbursed volunteer work or other charitable use
  - TaxWise will calculate the allowable amount
- In addition, unreimbursed travel expenses (parking, tolls, etc.) can be itemized
- It is not necessary to list each contribution to the same qualifying organization; just indicate the total by organization – e.g., Red Cross, Boy Scouts, United Way, etc.
- If additional space is required:
  - If *Addl A Wkt* was NOT used for medical, link from the last line to "NEW *Addl A Wkt* – Medical and Contributions Worksheet", otherwise
  - Open the existing *Addl A Wkt* from the form Tree

Sch A- Line 17- Contributions – Other than Cash

- The taxpayer must have an acknowledgment for any contribution of $250 or more
- Amount of contribution is FMV of the item at the time of the donation
- Clothing and household items must be in good used condition or better
- Records of items and amount donated should be retained by taxpayer
- Non-cash contributions whose total exceeds $5,000 make the return ***out-of-scope***
- Donations of vehicles are ***out-of-scope***
- If the total of all non-cash donations is $500 or less, list non-cash contributions in the appropriate section of the *A Detail* by charity
- If total non-cash contributions exceed $500, do not enter these contributions on the *A detail*; instead
  - **Go to *8283 Pg 1*** to list all non-cash contributions
  - Each donation date is listed separately ("Various" is not allowed)
  - Note columns d, e, and f should not be filled in if that donation is under $500
  - For column h, method used to determine FMV, "thrift shop value" usually applies
  - *8283 Pg 2* is ***out-of-scope***

Contributions – Carryover

- There are limits on charitable donations deductions made to certain organizations during any one tax year
- Taxpayers affected by the contributions limitation, either in the current year or a prior year, must be referred to a paid preparer as they are ***out-of-scope***

Sch A- Line 20- Casualty and Theft Losses – out-of-scope

Sch A- Line 21-23- Miscellaneous deductions subject to 2% of AGI reduction

- Miscellaneous deductions can be deducted after a 2% of AGI haircut (portion not allowed) and include
  - Unreimbursed employee expenses: tools, uniforms, union dues, etc.
    - ***TIP:*** Includes educator's expenses previously allowed as an adjustment to gross income, if any
  - Tax preparation fees
  - Investment expenses
  - Claim repayments of $3,000 or less
  - Unrecovered investment in an annuity (if not eligible for Line 28 treatment)
    - If the Taxpayer cashed in an annuity, they will have received a 1099-R with the amount they received
    - If the investment (Box 5 or Box 9b) is greater than the amount shown in Box 1, the net loss can be claimed as a miscellaneous itemized deduction

- Unreimbursed Employee Business expenses may be reported on *2106EZ*
  - Refer to Pub 4012, p. F-9 et seq. for certain employee expenses
  - If partially reimbursed by employer, Form 2106-EZ may not be used and return is ***out of scope***
- Enter items on appropriate lines in the Miscellaneous section of *Sch A*
- TaxWise will calculate the 2% of AGI nondeductible portion

Sch A- Line 28- Other Miscellaneous Deductions not subject to 2% of AGI reduction

- If you have one item to enter, and it does not come from a supporting form, you can enter the type and amount directly
- If you have a second item to enter that does not come from a supporting form, link from *Sch A L 28* to *Other Deduct-Sch A Line 28...,* not a *Scratch Pad*
- TaxWise allows the following entries in the Type Field ONLY (see Pub 529):
  - Gambling Losses – see Gambling Winnings-Form W-2G at page 38
  - Impairment-Related Work Expenses (for a disabled person)
  - Claim Repayments
    - If the taxpayer had to repay more than $3,000 that they had included in income in an earlier year
    - If $3,000 or less, the repayment is listed on line 23 and is subject to the 2% of AGI haircut
  - Unrecovered Pension Investments (includes annuities)
    - If a deceased person has a pension without survivor benefits, any unrecovered pension contributions may be recovered on the final return
    - If the investment (Box 5 or Box 9b, less amounts previously recovered) is greater than the amount shown in Box 1, the net loss can be claimed as a miscellaneous itemized deduction on Line 28
  - Amortizable Bond Premiums ***out-of-scope***
  - Casualty And Theft Loss ***out-of-scope***
  - Federal Estate Tax ***out-of-scope***
  - Schedule K-1 ***out-of-scope***

TAX

LINE 45------ ALTERNATIVE MINIMUM TAX *(out-of scope)*

LINE 46------ EXCESS ADVANCE PREMIUM TAX CREDIT REPAYMENT

- **Go to *8962***
- ***Note:*** *1040 Pg 2 L 46* and *1040 Pg 2 L 69* apply to taxpayers who purchased their minimum essential coverage (MEC) through the exchange only
  - Other health coverage does not qualify
- Taxpayers who purchased health coverage on an exchange may have been granted an advance premium tax credit (APTC) (Intake form Pg 3), which would have been paid to the insurer (not the taxpayer)
- The APTC must be reconciled in the return, using Form 8962
  - Some or all of an excess APTC may need to be repaid
- If the taxpayer qualifies for a PTC in excess of the APTC (if any), a net credit may be claimed
  - TaxWise will carry the computed Net Premium Tax Credit to *1040 Pg 2 L 69*
- Taxpayer will receive Form 1095-A with the information needed to complete *8962*
- If the taxpayer had a life event that might involve a shared policy situation, carefully review the instructions to Form 8962
  - Dissolution of marriage or legal separation
  - A tax family member covered by another taxpayer
  - Taxpayer's policy covers someone who is not a member of their tax family
  - Filing a return separately from their spouse
- Taxpayers who marry during the year may make an alternate calculation (Form 8962 Part 5)
- ***Note:*** Taxpayers receiving APTC should notify the exchange when they have a significant change to their income or family

CREDITS

Non-Refundable Credits

- Non-refundable credits offset tax due, whereas refundable credits may generate a refund
- ***Note:*** even if the Line 46 tax is zero, some (or all) of the Child Tax Credit may become a refundable Additional Child Tax Credit
- The existence of nonrefundable credits in excess of the amount allowed in a year may affect other calculations, e.g. the amount of capital loss carryover that received tax benefit
  - Enter all eligible credit information

LINE 48------ FOREIGN TAX CREDIT

- Foreign tax reported on Form 1099-INT, 1099-DIV, K-1, or substitute payee statement up to $300 single or $600 joint should be entered directly on the top of TaxWise *1116* – see above at p. 25
  - Use a *Scratch Pad* if there are multiple payments
- When foreign taxes exceed these limits, the Taxpayer is not eligible to use the simplified limitation method
  - An itemized deduction would be available
  - Or the Taxpayer should be referred to a paid preparer to complete a full Form 1116
- Foreign taxes paid coming from other forms or sources make the return ***out-of-scope***

LINE 49------ CREDIT FOR CHILD & DEPENDENT CARE EXPENSES

- Refer to Pub 4012, starting at p. G-3
- This MAY apply if taxpayer paid someone else to care for
  (1) A dependent child who was under age 13 when child care was provided OR
  (2) Their dependent or spouse who could not care for him/herself
  And (3) so that the taxpayer could work or look for work
- ***Note:*** in the year the child turns 13, these expenses can only be for the part of the year before his/her 13th birthday
- The "DC " column next to this dependent on the *Main Info* form must be checked to add *2441* to the Tree - UNLESS the person being cared for is the spouse
- **If the dependent is the spouse**, you must add the *2441*, then go to the bottom of the *2441* and check the spouse box and put 12 in the "Number of Months Disabled" section
  - This will populate item 2a with the spouse's name and SSN – otherwise the form will not accept the spouse's name
- Enter required information about the care provider – in this case the SSN or Tax-ID will not show dashes
  - ***Note:*** Return cannot be e-filed if EIN/SSN of provider is unavailable
  - ***Note:*** If the care provider worked in the taxpayer's home and the total amount paid during the year was over $1,800, Schedule H Household Employment Tax may be required in which case the return is ***out-of-scope***
- Enter the information about the person(s) receiving care
- If additional space is needed for more care providers or qualifying persons, link from the total cell in L 1(a) to *2441 Wkt 1* Additional Care Providers and Qualifying Persons
- If dependent care benefits were paid by the employer, make sure that this amount has been entered correctly on *W2*
- ***CA Note:*** CA also has a nonrefundable credit for Child and Dependent Care Expenses
  - When *2441* is completed, TaxWise adds *CA 3506* to the Tree and carries the information from *2441*
  - Answer questions at the top of the form
  - ***Note:*** *CA 3506* Part I regarding other funds received is not required (this field can be left blank)
  - *CA 3506* Part II, two addresses are needed
    - The provider's business address
    - The location (in CA) where care was provided
  - Complete *CA 3506* and get the red out

LINE 50------ EDUCATION CREDITS

- If the taxpayer paid, or used loans, for qualified expenses for themselves or a dependent to enroll in or attend an eligible educational institution, an education credit may apply
  - Schools that qualify are listed at https://fafsa.ed.gov/FAFSA/app/schoolSearch?locale=en_EN
- A dependent cannot take either credit, but they can report taxable scholarship income, if they have any
- If taxpayer could be claimed as a dependent by another taxpayer (*Main Info* sheet question 6 (a)) answer the question at the top of *8863 Pg 1*
- The taxpayer can use ONLY ONE credit per student
  - Complete *8863 Pg 2* for each student for which a credit is claimed; add more *8863 Pg 2* as needed
- Expenses used for calculating either credit must be paid during the tax year
- The student should receive a Form 1098-T from the educational institution, which shows tuition and fees paid or billed as well as scholarships
  - See Line 7 Scholarships, Fellowships & Grants – W-2 or 1098-T on page 19 above if scholarships, etc., are taxable (see final note on Pub 4012 J-5)
- Expenses used for calculating either credit must be reduced by any scholarship amount designated for those expenses
- Use the worksheet on page 79 to determine the amounts eligible for either credit
- ***Note:*** It may be more advantageous to claim a business related expense on *Sch C* if the facts fit
- ***Note:*** Education expenses in excess of the amounts allowable for either credit may be deductible elsewhere
- ***CA Note:*** Since CA has no education credit, an adjustment on *CA C* or *CA A* may be possible if the facts fit

- **Go to *8863 Pg 2***

American Opportunity Credit (AOC)

- For 2009 through 2017, this credit is applicable
  - For the first four years of postsecondary education (generally, the freshman through senior years of college), as determined by the eligible educational institution
  - When neither the American opportunity credit nor the Hope Scholarship Credit has been claimed (by the taxpayer or anyone else) for this student for any four tax years before 2014
  - The student is enrolled at least half time
  - The student has not been convicted of a felony drug offense
- Foreign college-level study is also counted toward the first four years, if the eligible education institution counts that study toward the first four years
- Education after four years of college (as determined by the educational institution) is ineligible for the credit
- These qualifying first four years do not have to immediately follow secondary school and do not have to be continuous; there can be breaks in between
- Up to 40% (maximum $1,000) of this credit may be refundable
- Allowable expenses are tuition, fees, books, supplies and computers required as a condition of enrollment
- Enter in part III of *8863* (note that the credit will be split between *1040 Pg 2 L 49* and *1040 Pg 2 L 66*)
- Amounts paid by others, e.g. grandparents, are deemed paid by the taxpayer
- When the student is the taxpayer and is less than 24 year of age, refer to Pub 4012 J-8, which denies the refundable part of AOC in certain circumstances

Lifetime Learning Credit

- All other postsecondary education not covered under the AOC
- Allowable expenses are only tuition and fees
- Amounts paid by others, e.g. grandparents, are deemed paid by the taxpayer
- The limit is $10,000 of costs per return – regardless of the number of dependents

Which education benefit is best

- If the student qualifies for the AOC, in almost all cases it will be the most beneficial credit because
  - It is a partially refundable credit
  - Eligible expenses include course materials as well as tuition and fees
  - The AGI limit is higher than the Lifetime Learning credit

- If the student does not qualify for the AOC because they are not a half-time student or are not in their first four years of college, the Lifetime Learning credit should be claimed, unless a Sch C business-related expense is available and better
- The recommended procedure to determine which education credit (Lifetime or AOC) is better
  - First complete ALL other aspects of the return. Then:
  - Enter amount information for the Lifetime Learning credit
    - Note the tax result and remove the information
  - If business-related, enter on Sch C and note the tax result
  - Enter amount information for the AOC, if the individual qualifies
    - Note the tax result; if this produces the best result, you are done
    - Otherwise remove the AOC Credit and
  - Re-input the Lifetime Learning Credit or Sch C, whichever produced the best result
  - If there are multiple students, proceed one student at a time. All various combinations should be tried
- Note that if an education credit calculates to zero, you MUST remove the *8863* (or the entries) from the Tree; otherwise it will cause an e-file reject
- ***Note:*** Education expenses that are not claimed for the credit may be taken as an unreimbursed business expense on *Sch C* or *Sch A* IF they otherwise satisfy the requirements for deductibility
- ***CA Note:*** CA has no education credits. If a Sch C or Sch A deduction is proper, enter an adjustment on *CA C* or *CA A* using a *Scratch Pad*

LINE 51------ RETIREMENT SAVINGS CONTRIBUTION CREDIT

- **Go to *8880*** - added to the Tree when a retirement or IRA contribution is entered on *W2* or *IRA wkt*
- This credit is available to taxpayers who made elective contributions to IRAs, Roth IRAs and other qualified plans, IF their adjusted gross income was below certain maximums (the amount of the credit decreases as AGI increases)
- Entries of qualified retirement plan information from box 12 of *W2* or IRA contribution on *IRA Wkt* will transfer to *8880*, which will then appear red on the Tree
- Answer the questions about the plan distributions - use **F3** to confirm a zero distribution
  - Distributions from some (not all) plans should be included for the current year and the two prior years
  - To be included, the plan must have been one that contributions to it would have been elective and qualified for the credit
  - Plans that require contributions are not elective
- Refer to the instructions on *8880* or Pub. 17

LINE 52------ CHILD TAX CREDIT

- This credit is for taxpayers who have a qualifying child under age 17
  - It is in addition to the child and dependent care expenses and earned income credits
- TaxWise places an "✓" next to the dependent name on the *Main Info* form once a date of birth is entered for a dependent who was under the age of 17 as of the end of the tax year
- If the CTC applies, TaxWise creates and completes form *1040 Wkt3*

Note: If the client's tax liability is less than the allowable Child Tax Credit, the client MAY be eligible to claim the refundable Additional Child Tax Credit – TaxWise will complete *8812*

LINE 53------ {Reserved}

LINE 54------ OTHER CREDITS

Schedule R: Credit for the Elderly and Disabled

- This credit applies ONLY if the taxpayer or spouse
  - (1) was age 65 or older at the end of the tax year OR
    (2) retired on permanent and total disability, had taxable disability income AND was under the mandatory retirement age
  - Income limitations apply based on filing status, types of income and AGI
- Many Tax-Aide clients are over age 65 and are collecting social security, and therefore DO NOT qualify for this credit – however, with SS retirement age increasing, we may see more Schedule R's
- Refer to Pub 17 to determine if a client is qualified for this credit

- If the taxpayer(s) have no social security income, TaxWise will automatically calculate the credit
- If the taxpayer(s) is on permanent disability, which is indicated by checking the box on the *Main Info* form under Taxpayer Information:
  - Complete *Sch R Pg 1* Part II Statement of Permanent and Total Disability
  - Enter the amount of non-taxable veterans pension or any other pension, annuity or disability income that is excluded from income
- ***Hint:*** Make sure all social security payments (1099-SSA and RRB-1099) have been entered to avoid generating an incorrect credit

All other L 54 credits are out-of-scope:
Form 3800 General Business Credits
Form 8396 Mortgage Interest Credit
Form 8859 DC first Time Homebuyer Credit
Form 8910 Alternative Vehicle Credits
Form 8834 Plug-In Electric And Electric Vehicle Credit
Form 8936 Plug-In Electric Motor Vehicle Credit

OTHER TAXES

LINE 57------ SELF EMPLOYMENT TAX

- TaxWise completes *Sch SE* using entries from *Sch C*
- If self-employment income is from notary business, self-employment tax does not apply
  - Go to *Sch SE* and enter the net profit from the notary business on L 3
  - Go to *1040 Pg 2* L 56 and check the notary box
- Self-employment tax does not apply to statutory employees - FICA and Medicare taxes were withheld on their W-2
- Unique rules apply to the clergy and are ***out-of-scope***

LINE 58------ UNREPORTED SOCIAL SECURITY AND MEDICARE TAX

This comes from *4137* tip income not reported on W-2s see Line 7 Tip Income above at page 20

LINE 59------ ADDITIONAL TAX ON IRA, OTHER QUALIFIED PLANS

5329 Part I:

- This is the 10% surtax calculated on Form 5329 for early withdrawal before age 59½
  - 25% in the case of a SIMPLE early withdrawal – code S in 1099-R box 7
- If there is a surtax in *5329* Part I and no exception applies, it is not required to print or attach the form to the return
- If there is an exception to the penalty, check the box to force a 5329 on *1099R* (2nd question below box 7)
- **Go to *5329***, the amount subject to penalty is shown on L 1
- If an exception applies, the codes are listed in Pub 4012 H-2 or
  - **F1** > **Index** > **Exception Codes for Additional Tax on Early Distributions**
- Enter the appropriate code and the amount that is NOT subject to additional penalty on *5329 L 2*
- For additional exceptions that apply to annuities, see Pub 575

5329 Part VIII:

- If the client says they failed to take their required minimum distribution, they may be liable for the excess accumulation surtax (50%) computed in Part VIII
  - Taxpayer needs to correct the problem by taking the required distribution – this will result in a double distribution for the year in which the correcting distribution is taken
  - A waiver of the 50% surtax may be requested in *5329* Part VIII
    - Enter the amount of the RMD shortfall on the line provided at L 52
    - Link from the box at L 52 to a new L 52 – Form 5329 Line 52 ...
    - Complete the Line 52: Explanation for Request of Waiver of Tax
      - Describe the circumstances that led to the failure and that the shortfall has been remedied (this must be done)

5329 Parts II through VII - out-of-scope

LINE 60A --- HOUSEHOLD EMPLOYMENT TAXES (*out-of-scope*)

LINE 60B---- FIRST-TIME HOMEBUYER CREDIT REPAYMENT FORM 5405

- 2008 homebuyers, who received the First Time Homebuyer credit (2008 1040 L 68), must repay the credit starting in 2010
  - The repayment is spread over 15 years (could be 2010-2024)
  - Use of *5405* will track the total repaid when data carryforward is used
  - Direct entry of the repayment amount is also permissible on *1040 Pg 2 L 60b*
- Repayment of the un-repaid portion of the credit may be required if the home is disposed
  - See Form 5405 instructions
- The first-time homebuyer credit claimed during 2009 – 2011 is subject to repayment if, with some exceptions, within 36 months of the purchase date
  - There is a disposition of the home, including death of a joint owner or divorce, or
  - The home is no longer used as the main home
- If *5405* is used or required because of a disposition, separate *5405* will be required for the Taxpayer and Spouse
- The exceptions for destruction / condemnation (F or G) are ***out-of-scope***

LINE 61------ HEALTH CARE: INDIVIDUAL RESPONSIBILITY

Full-year Coverage

- If taxpayer, spouse and dependents all had full-year health insurance coverage, check the box
- Refer to the ACA tab in 4012 for coverage that meets MEC standards

Individual Responsibility Payment

- **Go to *8965*** – complete after all other tax data has been entered
- TaxWise may complete parts of the form based on data already entered
- Complete the form if an exemption applies partially or fully
- If no exemption applies, verify that TaxWise computes the individual responsibility payment or you may need to complete a worksheet

LINE 62------ OTHER TAXES

- If a *W2* has a box 12 code M or N for uncollected social security/RRTA or Medicare tax on the taxable cost of group-term life insurance, the amount will be shown on this line as UT – no further action is needed
- The other taxes (Forms 8959 and 8960) are ***out-of-scope***

PAYMENTS AND REFUNDABLE CREDITS

LINE 64------ FEDERAL INCOME TAX WITHHELD

- Federal tax withheld is transferred to this line from entries on *W2* and some *1099*
- For 1099 withholding not listed elsewhere (e.g. 1099-B), enter on the line immediately below L 62
  - If there are multiple amounts, link from that field and enter on a *Scratch Pad*

LINE 65 AND CA 540 LINE 72 - 2014 ESTIMATED TAX PAYMENTS

- These are payments that the taxpayer HAS MADE using either 1040ES (federal) and/or 540ES (CA) for the CURRENT tax year
- **Go to *F/S Tax Paid*** worksheet
- ***Note:*** See Estimated Tax Payments For Next Year on page 58 to prepare payment vouchers for NEXT year's estimated tax payments as well as applying any overpayments (refunds) from this return to the NEXT year's estimated tax

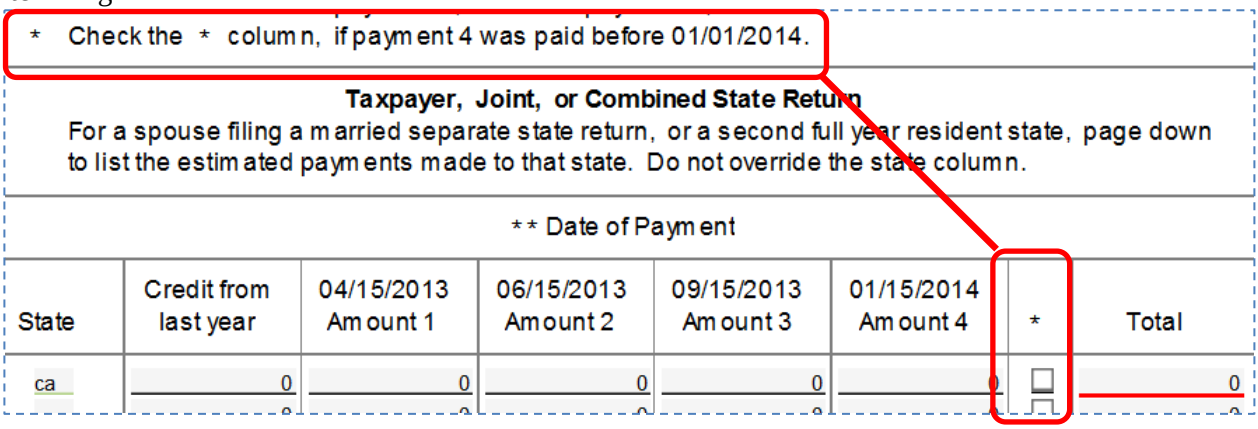
Federal Estimated Tax Payments

- Enter any overpayment amount from last year that was credited toward estimated taxes for the current year
- Enter payment dates shown on taxpayer's checks
- Enter actual amount paid in each quarter

- The fields to the right are calculated fields – do not attempt to change these fields

State Estimated Tax Payments

(Middle section on the same form)

- Note that this section loads horizontally – unlike the federal
- All payments for state taxes (for any tax year) made during the tax year will be transferred to *Sch A*
- The payments for the current tax year will be transferred to the CA tax return as taxes paid
- Enter payments made for prior years on the applicable line
- Indicate with a "*" if the Q4 2014 payment was made before 1/1/2015 so that it will be deducted this year if itemizing
- 
  * Check the * column, if payment 4 was paid before 01/01/2014.

  Taxpayer, Joint, or Combined State Return

  For a spouse filing a married separate state return, or a second full year resident state, page down to list the estimated payments made to that state. Do not override the state column.

  ** Date of Payment

State	Credit from last year	04/15/2013 Amount 1	06/15/2013 Amount 2	09/15/2013 Amount 3	01/15/2014 Amount 4	*	Total
ca	0	0	0	0	0	☐	0

LINE 66------ EARNED INCOME CREDIT

- EIC is available to people who have earned income, subject to income limits, and generally have at least one qualifying child
- It is a refundable credit – it is not necessary to have federal tax to claim the credit
- Higher income limits apply when there is more than one qualifying child, up to three children
- Taxpayer may claim a child for EIC that lives with the taxpayer even though that child cannot be claimed as a dependent because the child provided more than one half of their own support or because the noncustodial parent is claiming the dependent
  - Use code "0" on the *Main Info* sheet in the dependents section, code column
- When dependents or nondependents are included on the return, the "EIC" box on the *Main Info* form must be checked next to dependents or nondependents for those that are eligible to be claimed for EIC
- If there is no EIC qualifying child
  - EIC is available to taxpayers at least age 25 (as of year-end) and under age 65 (as of year-end)
  - If married filing joint, only one taxpayer has to meet the age requirement
- If the return qualifies for EIC credit, complete the *Sch EIC* and *Sch EIC Wkt* which TaxWise has added to the Tree
- When completing *Sch EIC*, answer only question 4a **OR** 4b – answering both causes the return to be rejected by the IRS
- Answer all questions to remove the red on the worksheet
- ***Note:*** *Sch EIC wkt L 7* asks if "the child is unmarried" – verify the answer to this question as it is a common error

LINE 67------ ADDITIONAL CHILD TAX CREDIT

- If a taxpayer's tax liability is less than the allowable non-refundable CTC, the taxpayer may be eligible to claim the refundable ACTC
- TaxWise computes this credit automatically on *8812*
- The ACTC is limited to 15% of any earned income above the current year's limit ($3,000)
- The total of the two credits will be $1,000 or less per eligible child

LINE 68------ AMERICAN OPPORTUNITY CREDIT

- Up to 40% (maximum $1,000) of the AOC will be refundable
  - See Line 50 Education Credits at page 47

LINE 69------ NET PREMIUM TAX CREDIT

- Taxpayer must have purchased their health coverage on an exchange, e.g. Covered California
- See Line 46 Excess Advance Premium Tax Credit Repayment on page 45

LINE 70------ AMOUNT PAID WITH REQUEST FOR EXTENSION TO FILE

- Directly enter any payment made
- When doing a prior year return, remember to ask if payments have been made

LINE 71------ EXCESS SOCIAL SECURITY

This entry is made automatically if there are multiple *W2*s for an individual and the combined wages exceed the maximum subject to social security for the year.

LINE 72------ FEDERAL TAX ON FUELS FORM-4136 (*out-of-scope*)

LINE 73------ CREDITS 2439 (*out-of-scope*)

CA ADJUSTMENTS & DIFFERENCES

This section identifies specific situations that MAY need to be addressed on CA returns.

- While California generally follows IRS tax law, there are a number of situations where California and the federal law differ – see CA Pub 1001 for more information
- These differences are summarized on CA Schedule CA (540) by either adding to, or subtracting from the amounts reported to the IRS on Form 1040
- In most cases, TaxWise will make the appropriate adjustments from entries on the federal forms
- Counselors and QR must verify the differences reflected on *CA CA* and correct any problems by
  - Returning to the appropriate forms on the federal return, OR
  - Making an adjustment on *CA CA* or *CA C* or *CA A* as detailed in the respective section of this manual
  - ***Caution:*** Use a *Scratch Pad* to adjust the specific field
    - A direct entry may require an override and may cancel other adjustment that TaxWise flows to the CA return; so direct entries should not be used

FILING STATUS

Head of Household

- *CA 4803e* MUST be completed for CA returns being e-filed as head of household
- Failure to complete the form will generate an error when running diagnostics
- This worksheet asks a series of Yes or No questions – complete it carefully to assure proper filing
- Caution when entering age of qualifying person
  - If 1 year of age or older, enter years ONLY
  - If less than 1 year old, enter months ONLY

INCOME EXCLUDIBLE FOR CA

California taxes worldwide income except for:

- Ridesharing fringe benefits - the employer should have reported this difference by reporting different state wages on W-2 – the CA adjustment must be manually entered, see W2- State Section above on page 18
- Clergy housing income – see Pub 1001 (tax provisions peculiar to clergy are ***out-of-scope***)
- Indian Tribal Members Income, if live & work on tribal land – see W-2 Indian Tribal Income on page 20 or 1099 MISC Income on page 38
- Interest paid on municipal bonds issued by the state of CA, including Counties, Cities, or Agencies – see 1040 Line 8 above on page 21
- Interest earned from US Government Savings Bonds, US Treasury Bills and any other bond of the US or US territories – see 1040 Line 8 above on page 21
- Dividends from CA municipal and U.S. government bond funds – see 1040 Line 9 above on page 23
- Any state tax refunds – see 1040 Line 10 above on page 25
- Tier 1 (1040 Line 20 above pg 37) and Tier II railroad retirement benefits (1040 Line 15/16 above pg 35)
- Unemployment compensation paid by CA or another state (1040 Line 19 above pg 36)

- Social Security Benefits (US only) (1040 Line 20 above pg 37)
- CA lottery winnings (1040 Line 21 above pg 38) (lottery winnings from other states are taxable for CA)
- Government agency authorized reward from a crime hotline (see Pub 1001)
- HSA distribution in excess of qualified medical expenses – see Health Savings Accounts in CA on pg 54

INCOME INCLUDIBLE FOR CA

California taxes certain items not taxable on the federal return:

- Wages – HSA employer contributions – see Health Savings Accounts in CA on pg 54
- Interest from non-CA state and municipal bonds – see 1040 Line 8 above on page 21
- Interest or other income earned in an HSA – see Health Savings Accounts in CA on pg 54
- Dividends from non-CA municipal bond funds – see 1040 Line 9 above on page 23
- Retirement payments from foreign governments such as Canadian OAS, CPP, QPP, or German Social Security – see 1040 Line 15/16 above pg 35
- Discharge of indebtedness excluded for federal in excess of CA limits – 1040 Line 21 above pg 39

Military Income

- See Pub 1032 for differences ***– must be Military-certified***

Inherited Property Basis Difference (1040 Line 13 above pg 27)

- Property inherited from decedents dying in 2010 has a basis of FMV on the date of death for CA purposes
- Federal basis may be different when shown on Form 8939 – if so, the return is ***out-of-scope***

IRA Basis Difference

- ***Note:*** IRA basis recovery is on Form 8606 Part I for federal
- There may be a basis difference for CA as shown in the table below
- Client must have records showing the amount contributed for each of these years and the amount deducted for federal and CA, if any
  - Without records, there will be no adjustment of the taxable IRA distribution
- Generally, CA basis in excess of federal basis is applied to reduce the amount of taxable IRA distribution until CA basis is the same as federal basis
  - Thereafter, no further adjustment would be needed as CA follows federal IRA basis recovery rules
- CA Pub 1005 has detailed instructions and worksheets

Year	Federal	California
1975	Max deduction $1,500	No IRA deduction
1982-1986	Max $2,000 with earned income	Max $1,500 and not allowed if covered by pension plan
1987-1994	IRA limited to net federal Sch C income plus wages	IRA limited to CA net Schedule C income if less than federal
2007-2009	AGI limits increased for deductible IRA for active participants	CA AGI limits lower, allowed deduction could have been lower
2007-2009	Catch-up provisions	Non-conformity
1987 - Present	Non-deductible contributions	Separate election

Capital Loss Carryover (CA Sch D, see above pg 29)

- Capital loss carryover amounts can vary between federal and CA; however, we don't see these differences because the return would usually be out of scope
- TaxWise does NOT automatically carryforward the unused loss amount from the prior year's CA Sch D
- If not yet entered, confirm that the prior year's return did not have a different net capital loss for CA than for federal. If there is a difference, confirm that the CA amount is correct and use the CA return amount (our typical client would not have such a federal to CA difference)
  - Go to *CA D*
  - Enter combined federal long and short term carryover or the CA amount on Line 6 as a positive number
- Verify that *CA CA* has no subtractions or additions (or the correct amount) on the Capital Gain/loss line

DEDUCTIONS ALLOWED BY CA

- Medical Expenses reimbursed by HSA distribution – see Health Savings Accounts in CA on pg 54
- Work-related expenses for which a federal education credit was claimed
  - Claim in *CA Sch C* or *CA Sch A* if the requirements for deductibility are satisfied

DEDUCTIONS NOT ALLOWED BY CA

- State or local income taxes (Sch A Line 5 above pg 42)
- Foreign income taxes (Sch A Line 8 above pg 43)
- PMI deducted as interest on the federal return (Sch A, Line 13 above pg 43) {EXPIRED}
- CA Lottery gambling losses (1040 Line 21 above pg 38and Sch A Line 28 above pg 45)

HEALTH SAVINGS ACCOUNTS IN CA

- CA does not recognize HSAs nor the trust that is created for federal tax purposes
  - This can impact many parts of a return
- *W2* – contributions made by an employer to a Health Savings Account and shown in box 12 code W of the W-2 are not federally taxable, **but** they are taxable by California and **must be manually added** to L7 Wages on *CA CA*
  - **Go to *CA CA* L7** and link to a *Scratch Pad* in the Additions column
  - Describe as HSA employer contribution and enter the amount as a positive figure
- Interest or other income earned in an HSA account is currently taxable for CA
  - Add a line for HSA on the *Interest Stmt* or the *Dividend Stmt* and enter a "**+**" in the state adjust column and enter the adjustment amount
- Capital gains or losses within the HSA trust are recognized for CA
  - **Go to *CA D*** and add the sale transaction
  - ***Note:*** this may result in a different capital loss carryover for CA purposes
    - Make a note on the *Main Info* sheet or in Taxpayer Diary
- If there are HSA distributions in excess of qualified medical expenses, TaxWise includes the distribution in income for federal; but, it is not taxable for CA
  - TaxWise does **not** make the CA adjustment
  - **Go to *CA CA*** and enter a subtraction on L 21f for the HSA distribution include in *1040 Pg 1 L 21*
- TaxWise transfers medical expenses (reimbursed by the HSA and not deducted on federal Schedule A as shown on *8889 Pg 1 L 15*) to *CA A* so no manual adjustment should be needed

CA ONLY CREDITS

Child and Dependent Care Credit (CA 3506) CA 540 Pg 3 L 40

- See Line 49 Credit for Child & Dependent Care Expenses on page 46

Joint Custody Head of Household Credit Code 170 CA 540 Pg 3 L 43/44

- This credit is available to a non-custodial parent filing Single or MFS if
  - under a joint custody agreement a child lives with the custodial parent more than one half the year
  - but noncustodial taxpayer maintains his/her home
  - which is the main home for the qualifying child
  - for at least 146 days but less than 219 days
  - and possesses a decree of dissolution or legal separation, or a written agreement entered into before the final decree is issued
- If MFS, the taxpayer must have lived apart from their spouse/RDP for the entire tax year
- See Form 540 instructions
- The credit is input on *CA P Pg 2* Section B1 – if the taxpayer qualifies, click the button on L 14
- The credit is 30% of the tax due (*CA 540 Pg* 2 L 35) limited to a credit of $425
- The credit cannot be claimed if the Dependent Parent Credit code 173 is claimed
  - Properly, TaxWise will not permit both credits to be claimed

Dependent Parent Credit Code 173 CA 540 Pg 3 L 43/44

- ***Note:*** see very limited situations where a MFS return can be completed in Tax-Aide on page 13

- This credit is available to a person filing MFS who
  - cannot claim Head of Household status
  - because they have no dependent child that would qualify them as "considered unmarried"
  - but does have a dependent parent(s)
  - for which the taxpayer paid more than half the household expenses
- The taxpayer must have lived apart from their spouse/RDP for the last half of the tax year
- See Form 540 instructions
- The credit is input on *CA P Pg 2* Section B1 – if the taxpayer qualifies, click the button on L 15
- The credit is 30% of the tax due (*CA 540 Pg* 2 L 35) limited to a credit of $425
- The credit cannot be claimed if the Joint Custody HoH Credit code 170 is claimed
  - Properly, TaxWise will not permit both credits to be claimed

Senior Head of Household Credit Code 163 CA 540 Pg 3 L 43/44

- This credit is available for a person 65 or older who
  - qualified as head of household for 2012 or 2013
  - does not qualify for HoH in 2014 because the qualifying relative for HoH died in 2012 or 2013
  - AGI does not exceed $69,005 for 2014 – **caution, TaxWise may not apply this income limit properly**
- See Form 540 instructions
- Eligibility for the credit is input on *CA P Pg 2* Section B1 – if the taxpayer qualifies, check the box on L 16
- The credit is 2% of Taxable Income (Line 19) , but not more than $1,300 for 2014 – **caution, TaxWise may not apply this income calculation properly**

Child Adoption Credit Code 197-- out-of-scope

Renter's Credit (non-Refundable) CA 540 Pg 3 L 46

- CA AGI must be less than $37,768 in 2014 or $75,536 for MFJ, HOH, or QW
- Rent was paid on a principal residence in CA for 6 months or more during the tax year
  - Include a mobile home for which the taxpayer pays rent for the land
- The residence is not exempt from property taxes
- The taxpayer did not claim a homeowners property tax exemption at any time during the year
- If CA AGI is too high or there is no CA income tax (*540 Pg 2* L 35), no credit will be allowed
  - Answer "NO" to the question "Did you pay rent…" on *CA 540 Pg 1* and avoid filling out the renter's credit worksheet
- If the client is eligible for the credit, check the "YES" box (Did you pay rent….) on *CA 540 Pg 1*
  - TaxWise adds the *CA Rent Wkt* to the Tree
  - Complete the worksheet
  - TaxWise will calculate the credit if the taxpayer(s) qualifies
- Complete the worksheet carefully to assure proper credit
  - At least two of the three landlord information fields should be completed (name / address / tel #)
  - Leaving a field red will not stop the return from being e-filed

STATE TAX WITHHELD

- CA taxes withheld from wages, 1099-R, or any other 1099 will appear on *CA 540 Pg 3* L 71 if properly entered on the respective form
- Verify CA amounts withheld from all forms 1099-B, 1099-INT, 1099-DIV were entered and are properly reflected in *CA 540 Pg 3* L 71 (3rd line), as there is no input form for these
- CA tax withheld from a state-only form (e.g. 593 real estate sale) must be entered on *CA 540 Pg 3* L 73 linked to *CA 593*, *CA 592-B* or a *Scratch Pad*

STATE ESTIMATED TAX PAYMENTS

- See State Estimated Tax Payments section above on page 51
- If the return is on extension, enter the extension payment in the 2nd part of L 72 on *CA 540 Pg 3*

CA USE TAX

- *CA 540 Pg 4* L 95 is used to report the amount of CA use tax due on purchases of goods from out-of-state sellers
- Use tax on items of $1,000 or more must be calculated using the use tax worksheet found in the 540 instruction booklet
- If all use-taxable goods are each less than $1,000, the estimated use tax look up table may be used
- Credit for another state's sales tax may be claimed, to the extent of the applicable CA use tax
- ***Note:*** goods purchased outside the U.S., carried into the U.S. (not shipped), and declared for customs purposes are subject to use tax to the extent they exceed $800

CA ONLY VOLUNTARY CONTRIBUTIONS

- California allows the taxpayer to make contributions to any special funds listed on the form
- Unlike the federal presidential fund, a CA contribution increases the amount due or decreases a refund

REFUND OR BALANCE DUE

UNDERPAYMENT PENALTIES

- Calculation of estimated tax penalties is ***out-of-scope***
- If the client owes the IRS more than $1,000 or CA more than $500, they may be billed for the penalty at a later date
- Inform the Taxpayer of potential penalty(ies)
- Advise them that we are taking the penalty(ies) off the return
- The IRS/FTB may calculate a penalty and bill them accordingly

Clear Federal Penalty

- This may not be necessary if the defaults are set to zero the penalty
- If *2210 Pg 1 – Pg 4* appear on the Tree with an exclamation point, TaxWise has computed a federal penalty

Hint: Do NOT simply go into form 1040 and delete the penalty. This will cause a transmission reject, even if the amount is as small as $1.00

- Go to *2210 Pg 1* and DO ONLY THE FOLLOWING, nothing else:
  - Enter a value of $1 on Line 8 (last year's total tax liability) – DON'T do anything else
  - The remaining red fields will correct themselves
  - *2210* becomes inactive in the Tree and the form is not transmitted with the e-file

Clear CA Penalty

- If form *CA5805 Pg 1 – Pg 3* appears on the Tree with an exclamation point, TaxWise has computed a CA penalty

Hint: Do NOT simply go into form 540 and delete the penalty. This will cause a transmission reject, even if the amount is as small as $1.00

- Go to *CA5805 Pg 2* and DO ONLY THE FOLLOWING, nothing else
  - Enter a value of $1 on Part II Line 5 (last year's tax liability) - DON'T do anything else
  - The fact that some fields remain red is okay
  - *5805* becomes inactive in the Tree and the form is not transmitted with the e-file

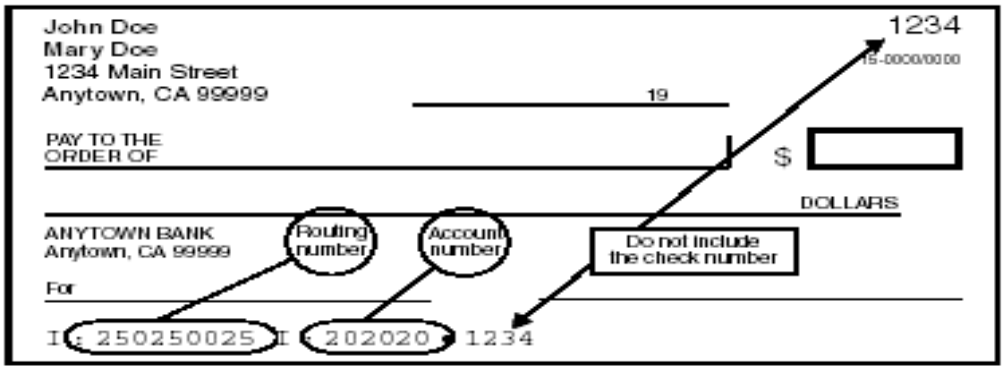
INJURED SPOUSE CLAIM

- If there is a refund due (because of withholding or estimates paid by taxpayer) and that refund will be offset by debts of the spouse that originated before marriage, the taxpayer may request that a Form 8379 be filed with the return
- Because 8379 requires income splitting, it is ***out-of-scope***
- ***CA Note:*** There is no equivalent provision for California

DIRECT DEPOSIT

- A taxpayer's federal or CA refund can be deposited directly to the taxpayer's bank account, which
  - eliminates printing and mailing a check and

  - gets the refund to the taxpayer approximately a week or more sooner
- While the taxpayer is not specifically notified by the IRS or FTB when the refund has been deposited, it will show up on the next bank statement (the bank might notify its client)
- Enter the 9-digit Routing/Transit number (which is always on the left side of the MICR encoded line) and the account number from a check – not a deposit slip
- Taxpayers who do not have a check should be encouraged to go to their bank to obtain a letter of account verification
- If the taxpayer is unable or unwilling to produce account verification or wants to use the account information from the prior year's return, then it is acceptable to put the non-verified account information on the return, provided that the counselor:
  - advises the taxpayer that without verification the account information provided will be put on the return at their own risk, such that if the funds do not arrive in their account that there will be no way to trace or replace the funds and
  - has the taxpayer write their initials next to the account information on the printed return
    - The initials will serve as indication that they have been warned that the account information has not been verified in the event that the funds are misdirected as a result of the information provided by the taxpayer
  - The preparer must make a note at the bottom of the *Main Info* sheet regarding the source of bank account information, if other than a pre-printed check
- Never use information from a deposit slip and never take numbers over the phone
- Omit spaces, dashes, and special symbols
- DO NOT enter the check (sequence) number, which will match the check number on the upper right corner of the check and may appear either before or after the account number



Federal

- The bank account information must be entered in two (2) places for verification
  1. Near the bottom of the *Main Info* sheet above the Practitioner PIN and
  2. Near the bottom of *1040 Pg 2*
  - The information must match
  - If it does NOT, you get an error when running diagnostics (but not when it is entered)
- Federal refunds can be split among three accounts, in which case complete *8888* and leave the information blank on the *Main Info* and *1040 Pg 2*
- On *8888*, the taxpayer can designate a portion of their federal refund to buy up to $5,000 in U.S. Series I Savings Bonds
  - The amount requested (L 4) must be a multiple of $50.00
  - The bonds can be issued in the name of both taxpayers, if this is a joint return, or in the name of just one spouse, or for others, and a co-owner or beneficiary can be designated
  - Taxpayer can contact Treasury Retail Securities at 1-800-245-2804 to check the status of their bonds

CA

- If there is a federal refund and a CA refund, *CA 540 Pg 5* must have the appropriate box checked to have the refund deposited in:
  - The same account as the federal (do not enter bank account info on CA form)
  - A different account, or

  - Mailed
- If there is no federal refund but there is a CA refund or if the CA refund is to go to a different account, check the second box on *CA 540 Pg 5*
  - Account 1 bank information below the check boxes will now turn red
  - When you enter the bank information another set of boxes further down will turn red and must have verification entries
  - It is not necessary to enter the bank information on the *Main Info, 1040 Pg 1*, or any place that is not red
- The CA refund can be split between two bank accounts. This is entered on *CA 540 Pg 5*
  - If splitting between accounts, enter the amount to be deposited in each account
- If direct deposit is selected, answer the question on *CA 540 Pg 5* regarding whether the financial institution is in the U.S.

DIRECT DEBIT

Federal

- When a taxpayer has a federal balance due, they may request direct withdrawal from their bank account
  - **Go to *Main Info*,** above the *Practitioner PIN*, enter the bank account information
  - **Go to *1040 Pg 2*,** just below *Amount you Owe*, check the Yes box to have the funds automatically withdrawn in the *Electronic filing only* section (do not enter the bank information)
  - **Go to *ACH 1040/ES (Estimate)*,** which TaxWise added to the Tree
    - Enter the bank account information for verification on *ACH 1040/ES (Estimate)*
    - Enter the amount the client wants debited
    - Specify the withdrawal date – April 15 can be the withdrawal date
      - If they might be subject to an underpayment of estimated tax penalty, you should suggest immediate payment to reduce penalties

CA

- Electronic funds withdrawal is also an option for CA balance due
- **Go to *CA540 Pg 5***, Direct Deposit of Refund or Electronic Funds Withdrawal of Balance Due section
  - Select the first **Electronic Filing Only** button
    - Enter the date the taxpayer wants the funds withdrawn
    - Enter the amount of funds to withdraw
  - Enter the bank account information for this withdrawal in Account 1
    - Required even if the same account as federal
  - Re-enter the bank account information in the following section for verification of the account numbers
- If ACH withdrawal is selected, answer the question on *CA 540 Pg 5* regarding whether the financial institution is in the U.S.

DIRECT PAY

- Taxpayers may go to IRS.gov for a new service to pay either a balance due on a return or a quarterly estimated payment
- It is functionally the same as direct debit (it comes out of the bank account)
- There is no fee
- It is easy to use

ESTIMATED TAX PAYMENTS FOR NEXT YEAR

FEDERAL ESTIMATED TAX PAYMENTS

Go to *1040ES Pg 1*

Pre-printed IRS payment vouchers are no longer furnished by the IRS if the prior year return is e-filed

- If a client expects a balance due of $1,000 or more for the next year and wish to avoid penalties, they may
  - Increase withholding from their paychecks using form W-4
  - Increase withholding from their retirement income using form W-4P
  - Increase withholding from federal payments (e.g. social security) using W-4V
  - Make estimated payments

- Quarterly payments of estimated tax must be mailed separately from the 1040V or tax return
- The taxpayer address used on the vouchers does not have to be the same as the address on the tax return
  - There is a box on Voucher 1 that allows you to change the name or address
- There are two ways to compute estimated taxes:

Option 1

- You can estimate taxes at a level to avoid underpayment penalty (90, 100 or 110% of the current year's liability – refer to Pub. 17), to pay the total amount due, or to generate a refund
- If no substantial change in income is expected for the following year, look at this year's return and discuss the option of paying more or less based on the current year's result, OR
- On the "estimate desired" L 20 at the bottom of the first section of *1040 ES Pg 1*, enter the total estimated tax amount (rounded up, if desired) for the next year – the amount will be divided into four equal parts and carried forward to the vouchers

Option 2

- If a substantial change in income, filing status, dependents, or credits is expected, fill in the "non-computed" fields of *1040ES Pg 1*
- Scroll down the form to fill in any other additional income and credit information, based on this year's return and additional information from the client
- TaxWise will compute the appropriate estimated payments and enter the amount on the vouchers

Hint: Note that computed tax does not subtract any withholding from any source; therefore, you need to input the estimated withholding for the following year on L 15

Application of overpayments to next year's estimated taxes

- A refund can be applied to next year's estimates. This is not recommended for several reasons
  - If the prior year return is not brought in or not pro-forma, the client may not remember the amount applied
  - If there is any adjustment on the return, the amount shown as applied may not have been applied and the client may not tell you of this change
- However if the client insists, proceed as follows:
  - On *1040ES Pg 1*, before the first voucher is a section that shows the amount of the refund, followed by boxes that allow you to credit "All" or "1st Installment Only"
  - Checking ALL will apply all of the refund to the estimates starting with the first until used up
    - If the refund is more than the total estimates, the balance of the refund will be refunded and this will be shown on *1040 Pg 2*
    - Checking ALL and asking for equal division will reduce each estimate payment by the same amount
  - Checking the "1st installment only" box will apply the refund only to the first installment and will refund any amount not used for the first installment
- If a client specifies a partial amount of their refund to be applied that does not match or exceed their first installment, the amount of applied to the next year's tax shown on the *1040ES Pg 1* must be overridden and the partial amount entered
  - Your site coordinator may have to accomplish the override

Payment of Estimates with automatic withdrawal

- This can be a big advantage for taxpayers who may forget their obligation to pay estimates on time
- They need to be reminded that they must assure that sufficient funds are in their account on the designated withdrawal date
- Automatic withdrawal from the taxpayer's bank account is done by using *ACH 1040/ES (ESTIMATE)*
- **Go to *ACH 1040/ES (ESTIMATE)***
- If using ACH for the balance due on the 2014 return, you ned to add another *ACH 1040/ES (ESTIMATE)* for each estimated payment to be done by direct debit
- ***Note:*** Or, taxpayers may use the new direct pay system at IRS.gov if they wish to do so

CA ESTIMATED TAX PAYMENTS (*CA 540ES WKT*)

- If a client expects a balance due of $500 or more for the next year, they may
  - Increase withholding from their paychecks (form DE 4 available from their employer)
  - Increase withholding from their retirement income (form DE 4P available at www.edd.ca.gov)

  - ***Note:*** State tax cannot be withheld from social security nor from unemployment
  - If withholding will be insufficient, they should make estimated payments in order to avoid penalties
- CA estimated payment requirements are slightly different from the IRS requirements, but are generally close enough that the same procedures can be used to estimate the tax
- **Go to *CA 540ES Wkt*** and use the same process for calculating the estimated tax as used for federal
- CA estimates are distributed 30% to first quarter, 40% to second, none to third and 30% to fourth quarter
- You must print four individual pages (including the worksheet) in TaxWise if printing the ES forms only, or generate the PDF for the return and print only the estimated tax payment voucher pages
- Electronic funds withdrawal
  - After completing *CA 540ES Wkt*, **go to *CA 540 Pg 5***, bottom of page, to specify which estimates are to be automatically withdrawn

PRINTING BLANK ESTIMATE FORMS

- TaxWise requires an entry on *1040ES Pg 1* and/or *CA 540ES Wkt*
  - Enter $1 on *1040ES Pg 1*, L 15, Income tax withheld
  - Enter $1 on *CA 540ES Wkt*, L 20, Income tax withheld
  - Print each page

FINAL STEPS IN TAX RETURN PREPARATION

COMPLETE *PREP USE* FORM

- Answer the questions on the form, if the Taxpayer is willing to do so
- Counselor needs to insert their initials and assure that the reviewer also inserts their initials

CLEAR WARNINGS

- Check the flags to the left of each form in the Tree
- Open each incomplete form (with form name in red)
- Use **Ctrl+E** to move your cursor to the next red field
- Make/correct entries for all required fields, or **F3** to verify or confirm zero entry
- Do not use **F3** to solve problems
- Repeat until no forms are flagged as incomplete
- Remember to scroll down to check the entire forms list
- Only now are you ready to run diagnostics

RUN DIAGNOSTICS

- Click Run Diagnostics using the Toolbar or **Ctrl+D**
- TaxWise does a complete review of the return and displays a list of errors, warns about overrides and estimates for both the federal return and the state return
- All warnings must be carefully examined and corrections made as applicable
- Quick access to the form that is in error is done by double-clicking on the error message in the diagnostics screen
  - This does not work for state or other errors that are not underlined
  - If there are multiple copies of the same form, review each until the error is found and corrected
- Overridden entries are those done within the context of TaxWise options (such as “changing the name & address” or “overriding amounts in boxes 3, 4 & 5” on *W2*) will appear in the diagnostics
  - Each should be reviewed and verified as needed
- Estimated entries occur because forms that are loaded on the Tree by default are not used
  - These entries are OK and do not need correction
- After all corrections have been made, click on the Refresh link to re-run the diagnostics
- When no diagnostic errors are detected, TaxWise will indicate that the return is eligible for e-filing by showing a “Create e-Files” link
- A return with no income cannot be e-filed (e.g. social Security only)

- If the taxpayer qualifies for a refundable tax credit (such as AOC) or to help avoid / identify identity theft, the return should be filed
- **Go to *1040 Wkt 7*** and on Line 16, enter "TO ALLOW E-FILING" and $1

CREATE E-FILES

Creating the e-file assigns the Submission ID to the return that will print on the 8879's

- This should be done EVERY time after there is any change to the return
  - It updates the e-files each time
- Click on the Create e-Files link on the diagnostics screen menu
- If errors are presented, these must be corrected so that e-files may be created
- Errors are often caused by
  - Illegal Punctuation (&, /) or extra spaces
  - Unused forms with stray entries
  - Other errors that may be hard to trace – ask QR or the site coordinator for assistance, if needed
- TaxWise acknowledges when E-files are created successfully
- Close the diagnostics panel

If a return is changed after an e-file is created, TaxWise will alert you to re-run diagnostics
You will also need to Create e-File(s) again.

PRE-QUALITY REVIEW

- Before QR, the Counselor is recommended to review the returns on screen
- Do the entries agree with the SS cards, W-2s, 1099-Rs, tax withheld, etc?
- Does any item seem strange (you don't understand where it came from)?
- Did the taxpayer get all the credits that you expected them to get?
- Review the CA 540 return, especially form CA Sch CA
  - Are all the CA differences you expected to see present?
- Any surprises should be checked out

RETURN STAGES

- Setting the return stage is a very important step in the return process
- Setting the correct return stage lets the ERO know the status of the return, consequently making his/her transmitting job easier and more accurate
- The counselor should ALWAYS set the return stage when finishing the return and the quality reviewer should check that it was set as part of the review of the return
- Return stage entries are set by State, District, or Site – check with your site manager
- The Return Stage can be set in two ways
  - Click on Return Summary on the Toolbar
    - Under "E-file status" click the down-arrow next to "Return Stage" and set the appropriate value
  - With the return closed and viewing the Active Returns (or any other return View), set the Return Stage by clicking the down-arrow under the Stage column on the row with the taxpayers name

QUALITY REVIEW

- Every return prepared at a Tax-Aide site must be quality reviewed by another counselor
- The taxpayer(s) should be present to observe the quality review and answer any questions
- The reviewer must:
  - Examine the intake sheet and supporting documents supplied by the taxpayer and compare them with the entries on *1040* and *CA 540* to check for the accuracy and completeness of data entry
  - Review the quality review section of the intake sheet during this process
  - Enter their initials on *Prep Use* form line 14
- Quality Review is best handled on screen not from printouts
  - While printing summary worksheets (for multiple W-2's or 1099-R's) may be tempting, it is not recommended as the reviewer will not see red input fields that need to be addressed
- The return is reviewed by looking at all TaxWise sheets that were used in conjunction with all the data submitted by the taxpayer

- When the quality review is finished, the quality reviewer should update the return stage as needed
- The reviewer should enter their initials on the *Prep Use* form
- The reviewer or counselor will need to re-run diagnostics and create e-files again as the last step before printing

REVIEW RETURNS WITH TAXPAYER

- You can do this review either from the computer screen OR by printing the returns
  - Decide which works best for you and the taxpayer(s)
  - For more complex returns (e.g. having many documents), it is often easier to work from a printed copy
- Bring the return up for review
  - Select "Print Return" on the Toolbar and click to open PDF file in a new window then click the print icon
- Go over the entries in the federal return with the taxpayer
- Review the entries in the CA return with the taxpayer
- Does the taxpayer understand the returns?
- If prior year return is available, you may review differences with Taxpayer
  - The Summary form may also be used
- When satisfied that the returns are in good order, continue

PRINTING RETURNS

- Click on "Print Return" on the Toolbar
  - This assumes that the print sets are setup by your TC or LC
  - If not, your LC will have to provide printing instructions
- An .pdf file will be created and can be scrolled through to see what will print
- Print the pdf file or select the forms to be printed and print
- ***Note:*** After printing a return, collate according to the Paper Return assembling instructions on page 64 below

Printing Individual Forms

- Print sets print only those forms that have been used on the tax return.
- Occasionally this can prevent a needed form from printing, as in the following situations:
  - Itemized interest and/or dividends on Schedule B are less than $1,500
    - TaxWise recognizes that Schedule B is not required, and does not print it
    - Sch B can be printed for the taxpayer's copy of the return
  - Itemized deductions apply for state, but not for federal
    - TaxWise applies standard deduction to federal, and does not print Schedule A
    - CA Sch A can be printed for the taxpayer's copy of the CA return
- To print individual forms, open the return, if not already open
  - Use the "Print Form" link in the left panel
  - Select the form to be printed and a pdf file will be created
  - Printing any *W2* or *1099R* generates a one page summary of these documents

Printing blank forms

- TaxWise allows you to print blank forms, which may be requested by a taxpayer who is coming to the site only for advice and/or assistance with a return he or she has manually prepared
- When no return is open, go to the TWO Home page
- Click "IRS Forms and Publications"
- Look up the appropriate form
- Print the requested number of copies

Suppressing Federal or California Return

- In some cases you will not be creating both federal and CA returns (e.g. they don't need or want to file a CA return, etc)
- To remove the CA return, remove the "CA" in the State Information section of the *Main Info* sheet
- To suppress the federal return (not recommended)
  - The CA return cannot be e-filed if the federal return is not e-filed
  - Change the federal return to a paper return on the *Main Info* sheet
  - Change the CA return to a paper return on *CA 540 Pg 5*

  - Print just the state return, including the copy of the federal return if required to be attached
- The ERO must be alerted to either of these situations
  - Make a notation at the bottom of the *Main Info* sheet or in the Taxpayer Diary

Client Letter

- Clients appreciate the information and professional "touch" in client letters
- TCs / LCs / EROs are encouraged to use client letters with site or district contact information if possible
- TaxWise client letters are printed separately from the return by clicking on the Client Letters on the Toolbar after you print the return
- Your ERO must create the Client Letters and give instructions on the use of them
- Some sites may not use the Client Letter feature, but have an alternate procedure
- You will be instructed on this at your site

SIGNATURES AND DISTRIBUTION OF COPIES

- The taxpayer's signature and spouse's signature are required on all tax returns – this is accomplished in different ways depending on how the return is filed
- If a return is MFJ and only one taxpayer is present, use the Practitioner PIN method and
  - Print *8879* and *CA 8879*
  - Instruct taxpayer to return with the signed 8879 forms – both Fed and CA – so the return can be filed electronically
  - Make it clear that the return will not be filed until we witness the signed form
- ***Note:*** A married taxpayer can sign for a spouse where injury or disease prevents signing, otherwise they must have a power of attorney (POA)

Electronic Returns – with Practitioner PIN (Electronic Signature)

- Both the federal and CA returns use electronic signatures
- The question on *CA 540 Pg 5*, "If electronically filing, does the taxpayer want to sign the return electronically?" must be answered "Yes"
  - TaxWise will then print a *CA 8879* for the taxpayer to sign
  - ***Note:*** If answered "No," TaxWise prints *CA 8453*, which is not used by Tax-Aide
- The Self Select and Practitioner PIN section on the *Main Info* sheet should be completed
- IRS *8879* and *CA 8879* will be generated – **the taxpayer(s) must sign both**
- Attach the signed IRS Form 8879 and the signed CA 8879 to the client's copy of the returns
- Your ERO will advise what documentation is required to allow them to e-file a return
  - See Pub 3189 for options
- The ERO signature is entered automatically on *8879*
- If attachments to the return are needed, see Using 8453 or Scanning PDF Attachments on page 64

Electronic Returns – with Self-Select PIN (Electronic Signature)

This method is not used by Tax-Aide

Deceased person-signature requirements

- A surviving spouse will sign the return and add "as surviving spouse" after their name
- A executor or administrator will sign their own name with their title as per
  - Copy of the will appointing the executor, if there is one
  - Other authorizing document, e.g. court appointment
  - If there is no document, the term "executor" includes anyone in actual or constructive possession of any property of the decedent – see Pub 559
  - *1310* refund due a deceased taxpayer will be required if the return is filed by other than a surviving spouse and there is a refund
- If attachments to the return are needed, see Using 8453 or Scanning PDF Attachments on page 64

Power of Attorney (POA)

- If an agent is signing the return for a taxpayer, a Power of Attorney (POA) must be submitted – see the following section for attachment instructions

- For POAs, the preparer must add *2848*, Power of Attorney and Declaration of Representative, and check the box which states "check here if using this form"
  - Shred the *2848* when it prints with the return
  - Instead, the POA provided by the taxpayer's agent will be used
- ***Note:*** A Power of Attorney expires when a person dies

Using 8453 or Scanning PDF Attachments

- Two copies of printed Form 8453 and attachments shall be given to the ERO who sends one copy to the IRS Processing Center in Austin, TX and the other copy to their IRS SPEC representative
  - The ERO can get mailing labels from their SPEC representative
- Sites may use attachments, scanned as pdf files, but must securely delete any files after their use is over
- In TaxWise either *8453* or scanned pdf option may be selected:
  - If scanning a broker's statement, check the appropriate box at the top of Sch D
  - If scanning 8332 or divorce papers, check the appropriate box on the *Main Info* sheet below Noncustodial Parents
  - If scanning POAs or other authorizing document, check the appropriate box(es) at the top of 2848
  - ***Note:*** TaxWise automatically adds *8453* when it is needed

PAPER RETURNS

- When paper returns are required because the return cannot be e-filed, verify that the following has been done to prevent generating e-files:
- "Paper" is checked under Type of Return on the *Main Info* sheet, for the federal return
  - ***CA Note:*** "No" is checked in response to the question "do you want to electronically file this return" on *CA 540 Pg 5*
- Update return stage to paper file
- Click the "Print Return" icon on the Toolbar
- Print two copies of the PDF, which includes the federal copy attached to the CA, if required

Note: Return stages are set by districts and the values they use may be different than the ones specified here. Check with your site manager if the return stage choice isn't obvious

Collate the returns

- Federal – according to Attachment Sequence No. (at the top right of the form)
- CA – according to numerical / alpha sequence, followed by federal return if required
  - TaxWise prints a notation on Form 540 page 1 when the federal return is required to be attached
- The **taxpayer(s)** must sign the second page of the IRS 1040 AND the last page of CA 540 returns being mailed
- Attach to the first page of 1040 and 540 returns:
  - W-2s (Fed / CA, respectively)
    - For CA return only, CA SchW2 may be used in place of W-2s, but don't attach both
  - W-2Gs, if tax was withheld (Fed / CA, respectively)
  - 1099-Rs, if tax was withheld (Fed / CA, respectively)
  - Any other forms showing tax withheld
- Instruct the client to mail the returns with any payment vouchers and checks (but separately from any payments of quarterly estimated tax)
- Mailing addresses are shown on page 1

EXITING A RETURN BEFORE COMPLETION

- Should you need to exit a return before completion of the return:
  - Before closing, change the "return stage" to indicate the reason why the return is not complete (optional by district)
  - If e-files have been created, delete the e-file
  - Any change to the return will delete the e-file, e.g., remove the date on the *Main Info* sheet
  - Enter an explanation of what is required to finish the return either in the Taxpayer Diary or at the bottom of the *Main Info* sheet
- Be sure to accurately explain the status of this return on your ERO log

Editing A Previously Created Unfinished Return

- Your LC may have to assign the return to you if it was started by someone else
- On the Toolbar, click on Open Return
- Enter the SSN of the file you need, TaxWise will load the return
- Proceed as with any other return

SUBMIT E-FILES

- Following your site's instructions, submit E-files if authorized to do so

UNABLE TO PAY/LATE FILING

- Returns prepared by Tax-Aide will always be filed by April 15, except for authorized sites open year-round
- Prepare proper vouchers for payment
  - Inform the taxpayer of the payment options below if they cannot pay in full on time
- Refer to IRS Pub 594 – The IRS Collection Process

Pay Late

- If payment can be made within four months, pay as much as possible by April 15
- The Taxpayer may contact the IRS at 800-829-1040 or go online at IRS.gov and request a Short Term Pay Agreement of 30, 60, 90, or 120 days
- This will stop the tracers and the placement of the account in collection status
- If the balance due can be paid within 4 months, do not request an installment agreement
  - Print enough voucher forms as the taxpayer may need, or
  - Direct the taxpayer to go to IRS.gov for direct pay
- The taxpayer will owe interest at the federal rate plus a late penalty of 0.5% per month after the due date

Pay by Credit/Debit card

- See Pub 4012 at page K-3 and IRS.gov for information on the payment of taxes by credit/debit card

Pay on Installment Agreement

- Should be considered only if the taxpayer cannot pay their balance due within 4 months
- *9465* is used to request an installment agreement
  - The return can be e-filed with this form
  - There is a one-time set-up fee of $120, which can be reduced to
    - $52 by agreeing to pay by direct debit, or
    - $43 by filing form 13844 (not available on TaxWise) for low-income households
  - The taxpayer can choose the monthly due date and payment amount, and may arrange to have the funds withdrawn directly from a bank account
- They will owe interest and a late-payment penalty of 0.25% of the balance due each month
- While on an installment agreement, the taxpayer may amend the agreement, including adding additional years, if necessary, on IRS.gov
- ***CA Note:*** *CA 3567* is used to request installment payments
  - A $34 filing fee applies

Hardship extension of time to pay

- ***Note:*** Form 1127 may be used request an extension of time to pay due to undue hardship (not available on TaxWise)

Late Filing

- If no tax is due or the taxpayer is due a refund, there is no penalty as long as the return is filed within three years of the due date
- Penalties if tax is owed:
  - The interest on the amount past due can vary by quarter
    - For all of 2014, it is 3% per year for each federal and CA, compounded daily
  - The late filing penalty is 5% per month of the unpaid tax up to a maximum penalty of 25% of the amount due for each federal and CA

- If the return is filed more than 60 days late, the minimum penalty is $135 or the full amount of the tax due, whichever is less

Refunds

- There is a deadline for claiming refunds
- For federal – three years from the date the return was due (e.g. the last day for claiming a refund on a 2011 return will be April 15, 2015)
- For CA – four years from the due date of the return (e.g. the last day for claiming a refund on a 2010 return will be April 15, 2015)

Prolonged Failure to File

- Unlike the three-year deadline for refunds, there is no limit on how far back the IRS can go in assessing taxes for non-filed returns
- Repeated failures to file could result in criminal charges, which carry a maximum fine of $25,000 and one year in prison for each count if convicted

END-OF-SHIFT

Assemble the ERO Envelope

- Your completed ERO Log
- Form 8453 and attachments, if applicable, in duplicate

Tax Aide Site Sign-in Sheet

- Check that everyone you have seen is properly recorded (cross check with computer and with ERO info)
- Record the number of tax questions that you answered that did not involve a return you prepared
- Turn in the information to your site coordinator

Computer Shutdown Procedure

- See TaxWise Shutdown Procedures on page 3

OTHER RETURNS

PRIOR YEAR RETURNS

Counselors who have been certified for the prior year to be prepared or for at least two years may prepare prior year returns
Only the last three years' returns may be prepared in Tax-Aide – taxpayers needing older returns should be referred to a paid preparer

- The prior year TWO is accessed by appending the two-digit year to the TWO URL
  - E.g. for 2012, the TWO URL is twonline.taxwise.com/12
- Click New Return on the Toolbar
- If the return will not be e-filed, note that many non-dollar fields are not required, for instance you only need dollar amounts on the W-2s
- After completing a prior year return, remember to log out of the prior year TWO site and open the current year TWO site before continuing with other new returns (the current year background color should be blue)
- IRS offices will no longer assist taxpayers with preparation of prior year returns
- Forms and instructions for prior years can be downloaded from the IRS web site

AMENDED RETURNS

Counselors who have been certified for the prior year to be prepared or for at least two years may prepare prior year returns
Only the last three years' returns may be amended in Tax-Aide – taxpayers needing older returns should be referred to a paid preparer

- Amended returns CANNOT be e-filed
- When amending a federal return, check to see if the CA return also needs to be amended
  - Both can be easily done at the same time on the computer
  - An adjustment letter (CP2000) is not a reason to amend a return

  - However if the federal adjustment proposed is correct and is accepted, a CA amended return may be necessary to agree with the adjusted 1040
- There will be instances when the federal return rejects and the necessary correction(s) change the state return amounts
  - If the state return has already been accepted, the ERO will have to generate a state amendment and arrange for the taxpayer's signature and mailing
- If amending a prior year return, confirm you are working in the software for the applicable year
- Prior year returns can be accessed only if the return was prepared in TWO for that year
  - If have a access to the original return, open that return
  - If not, a new return may be prepared and amended
    - Enter information from the original return on appropriate supporting form screens using information from the original return
    - However, since the amended return cannot be e-filed, employer or payer names usually do not need to be entered
  - Do not enter the original return numbers directly on the 1040 screen, as some items (such as taxable social security or allowable medical deductions) may change with the adjustment in income
- If amending a current year return, make a note at the bottom of the *Main Info* sheet why an amendment was filed and the date
  - Change the type of filing from e-file to paper on both the federal and CA
  - Update the return stage according to local instructions

Before Making Changes

- Reconfirm that all data conforms to the last determined amounts for both federal and California returns
- Lock the amounts in Column A Original Amount data:
  - Federal return:
    - Go to *1040X Pg 1*
    - Check the box on the first line to "Override the original entries in column A…" before making any changes to any forms
  - California return
    - Go to *CA 540 X Pg 1*
    - Check the red box above L 1a State wages to "Override all original entries in Column A…" before making any changes to any forms

Make Required Changes

- Go through each form that requires revision, and make the necessary changes
  - This updates both the federal and CA returns
- DO NOT make numeric changes directly on *1040X* or *CA 540X*
- Once all changes are completed and both revised returns are correct:
  - Open each page of *1040X* and complete any remaining red fields
  - Open each page of *CA 540X* and complete any remaining red fields
- Explain each change separately and in detail
  - Item being changed
  - Amount previously reported and corrected amount
  - Reason change was needed, note any documents that are attached supporting the change

Print the amended return(s)

- In addition to Forms 1040-X and 540-X, any form or schedule that has been changed from the return as originally filed should be attached to the amendment
  - E.g. if the return is amended to add a 1099 for interest income:
    - Federal: 1040-X, Sch B (if required) and any other form that changed (e.g. Sch A if medical deductions changed)
    - CA: 540-X, copies of CA and federal pages that changed
    - Write "as amended" at the bottom of each page that is being re-filed as part of the amended return
- Click the print return icon on the Toolbar
- If your ERO set up the program properly, two copies of the 1040-X and 540-X will print
- If not, then you will have to manually print the second copy

- Attach all supporting forms and schedules for items changed (make sure all info on the revised schedule including payer names is shown)
- **Federal:** The taxpayer(s) must sign and mail one copy of the 1040-X with all revised supporting forms and schedules
  - Attach any corrected W-2s and 1099s if there is withholding
- **CA:** The taxpayer(s) must sign and mail one copy of the 540-X with the revised CA forms or schedules, any changed federal schedules, and documents supporting each change such as corrected W-2s, 1099s
- ***Note:*** If the amendment is the result of a letter or notice from the IRS or FTB, send the amendment with a copy of the letter attached to the address shown on the letter
- For all other amended returns, see the table above on page 1 for addresses
- The client should be given an exact duplicate set of the returns for their records

REQUEST FOR EXTENSION OF TIME TO FILE

- An automatic six-month extension of time to file is available for most taxpayers by submitting Form 4868, which can be done as follows:
  - Filing form 4868 by phone or on IRS.gov between February 1 and April 15 if a payment is due
  - e-filing form 4868 (if approved by ERO) with direct debit if a payment is due
  - Mailing a paper form 4868 with a check for any tax due
- **CA** grants an automatic extension of time to file as long as the tax is paid in full by the due date
  - No form is needed if no payment is required
  - CA Form 3519 is the payment voucher for an automatic extension
- The key point that the taxpayer(s) must understand is that any tax liability (albeit estimated) must be paid to both the IRS and CA by April 15, otherwise interest and/or a penalty will accrue
- Complete the *Main Info* sheet and in the Self Select and Practitioner PINs section select the 4868 with or without direct debit, as appropriate
  - *4868* is added to the Tree
  - **Go to *4868*** and click the box at the top of the form
  - Enter the information from tax documents that were received and estimates for missing income or deduction items
  - Enter the amount to be paid, if any, on *4868 L 7*
  - Extensions can be e-filed or you can print Form 4868 so the taxpayer can mail the form with a check for amount due
    - ***Note:*** E-filing must be coordinated with and approved by your ERO
  - At some later date the taxpayer(s) will need to file the return – which will almost always be after April 15 when Tax-Aide services are no longer available, except for limited sites
- When there is a payment due for CA:
  - Complete the direct debit information on *CA 540 Pg 5*, or
  - Go to *CA 3519* and check the box at the top of the form
- Inform the client that the returns must be complete and filed by October 15
- Be careful if you print copies of the return as it is not complete, has not been filed, and may lead the taxpayer to believe that a return was filed by Tax-Aide
  - To remove doubt, it is suggested that you use a watermark or manually write on the return that it is a draft and has not been filed

REPORTING & SITE LOGS

- AARP Foundation must track counseling activity at each site, as this is the basis for the IRS grant
- In addition, the site ERO needs to track e-file activity
- Sites use various "logs", which may include:
  - Site Sign-in: to keep track of taxpayers in order to determine the sequence of service
  - Tax Aide Site Sign-in Sheet: to track counseling services provided, which is summarized by the Local Coordinator and reported periodically to the District Coordinator
  - ERO Log: information about returns to be e-filed, which is used by the site's ERO to control the e-file processing

- Sites can develop their own formats as long as they collect the following required elements of client activity:
  - Paper filed current year returns
  - Prior Year Federal Returns prepared
  - Amended Federal Returns prepared
  - State Only Returns prepared
  - Count of "Q&A" services (when no return was prepared)
- The site LC keeps the above statistics and provides them to the DC at specific intervals.

INDIVIDUAL TAXPAYER IDENTIFICATION NUMBER (ITIN)

- Federal law requires individuals with U.S. income, regardless of immigration status, to pay applicable U.S. taxes
- The ITIN is a nine-digit number (that begins with the number 9 and has a 7 or 8 as the fourth digit) that was created for use on tax returns by those taxpayers who do not currently qualify for (or have) a Social Security Number
- An ITIN will be issued to individuals who have a valid filing requirement ONLY
- The ITIN does NOT:
  - Authorize work in the US
  - Provide eligibility for Social Security benefits OR the Earned Income Tax Credit
  - Provide valid identification outside the tax system
  - Establish immigration status
- Refer to IRS Publications 17 and 1915

Taxpayer does NOT have valid SSN or ITIN

- Click "New Return"
- Mark "Apply for ITIN"
- A dummy identification number (e.g. ITI-N0-0001) will be assigned but will not print on the return
- Prepare the tax return
- Return cannot be e-filed
- Taxpayer will complete W-7
- Taxpayer will submit the paper return together with the W-7 and required documentation to the following address: (and not to any other IRS office):

  IRS, ITIN Operations
  PO Box 149342
  Austin, TX 78714-9342
- Taxpayer may alternatively submit the W-7 and required documentation to an IRS Acceptance Center or an IRS-authorized Acceptance Agent authorized to review the information
  - Local Acceptance Agents can be located on www.irs.gov under Acceptance Agent Program
- State return should be paper filed with "Applied For" written in the SSN field
  - Taxpayer should contact the FTB once the ITIN is received (1-800-852-5711)

Taxpayer has valid ITIN (from prior years)

- Client should bring their IRS letter that assigned their ITIN
- Check documents to make sure name is correct (SSN will be incorrect)
- Create the return using the ITIN as appropriate for the primary or secondary taxpayer
- For W-2 forms with the incorrect SSN, enter the incorrect SSN that appears on the paper W-2 issued by the employer (return can be e-filed)
- For 1099-R forms with the incorrect SSN, submit as paper return
- If documents have an incorrect name, submit as paper return

Taxpayer now has a valid SSN (previously filed using an ITIN)

- Prepare return
- E-file using the SSN
- Amend the prior year(s) returns

- Taxpayer subsequently obtains valid SSN after submitting one or more federal returns using an ITIN
- Prior year ITIN return could not claim EIC, but may claim on an amended return
- Reason should state "Previous return filed with ITIN _____" as well as the addition of EIC, or other change

Form W-7 (out-of-scope)

- Application for an ITIN
- For specific instructions, the applicant(s) should consult the instructions accompanying the W-7
- A blank W-7 can be printed from IRS.gov
- The application can be made by mail or at any IRS Assistance Center or Acceptance Agent
- It generally takes 4 to 6 weeks to receive the ITIN
- In most cases **the applicant must provide the original, completed tax return(s) for which the ITIN is being requested as well as two of the following with the W-7**:

Valid Passport (No other Document required	U.S. Military Identification Card
National Identification Card	Foreign Military Identification Card
U.S. Driver's License	Visa
Civil Birth Certificate	U.S. Citizenship and Immigration (USCIS) photo ID
Foreign Driver's License	Medical Records (dependent only)
U.S. State Identification Card	School Records (dependents and students only)
Foreign Voters Registration Card	

TROUBLESHOOTING AND TIPS

If TWO "Hangs Up"

- Usually, TWO will switch forms and update fields fairly rapidly
- When **Loading form** is displayed for an extended time – that is commonly referred to as a TWO Hang-Up
- If this condition lasts for more than 15 seconds, following are some procedures to use to recover, in the order they should be used:
  - Press the **F5** key to reload the form
  - Press the **Backspace** key in Internet Explorer
  - Close the return and re-open it
  - Log out of TWO and log back in
  - Close Internet Explorer and re-start it and TWO
  - Close TWO and re-boot the computer

Printing in TWO

- A multi-step procedure
  - First a PDF file is created by clicking Print Return
  - Then you must click the link to display it in a separate browser tab, and
  - Finally, you send the entire output or selected pages to the printer
- Note: The pdf file created in the separate browser tab may NOT be saved to an unsecured drive and cannot be given to the taxpayer
- Printing a form(s) –click the "Print Form" icon above the Tree
- Print one form at a time
- This can be tedious in the case where, for example, you have printed the return and then remembered to add the quarterly estimated tax vouchers. Rather than print the four vouchers one-by-one, you can create the PDF file by clicking Print Return. Then, find the page numbers of the vouchers and print only those pages, rather than the whole return. This is much faster than printing each form separately

Saving

- TWO automatically updates and saves the data as it is entered
- TaxWise auto-refreshes the screen at each entry
  - If Classic Mode display is used, the auto-refresh feature is disabled (it refreshes when you go to another form or close the return); still, the input is saved
- Any time the program freezes, you should go back over your last few entries to make sure that the data was saved properly

Deleting E-Files in TWO

- If you mistakenly create e-files, e.g., not ready to file, you should delete the e-file so the ERO won't have an e-file loaded for which he/she has no paperwork to accompany the return
- To delete the e-file:
  - Remove the e-file authorization date from the *Main Info* sheet
  - Then close the return – this will erase the e-file

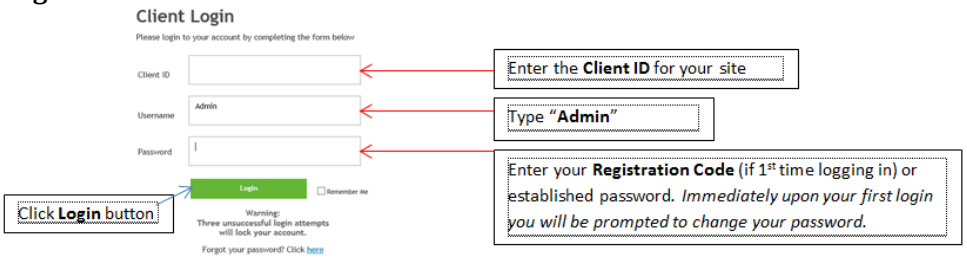
Restoring Deleted Returns

- Multiple returns can be restored using the "Restore Returns" feature
- If the SSN of a deleted return taxpayer is entered in the New Return dialog box, TaxWise will advise that there is a deleted return and give the option of using it

SITE SPECIFIC TWO ENTRIES

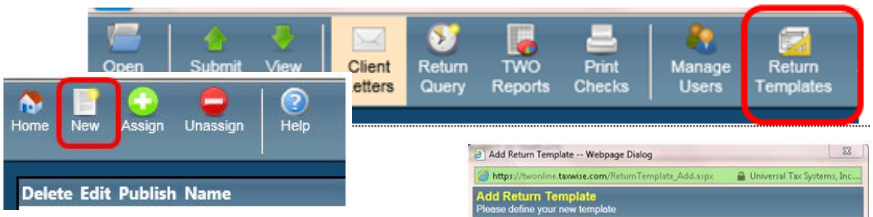
(Reference: IRS Pub 3189, TaxWise User Manual & Tax-Aide materials for all other settings)

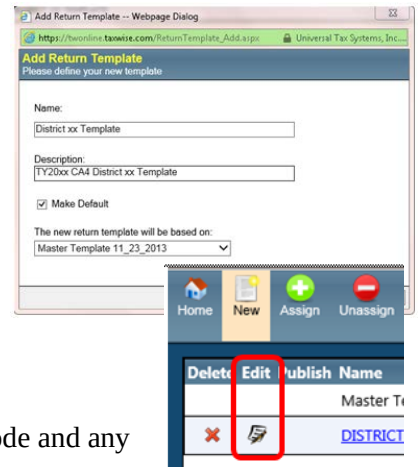
- TWO has a Master Template on which you can base the site template or, if you have been subscribed to the AARP National Template or a state template, you can base the site template on one of them. For TWO, the Main Information Sheet and Form 8879 are in the Return Templates.
- TaxWise Online allows you to create templates in Training and Publish to production
- **Login as Admin**


Client Login
Please login to your account by completing the form below
Client ID
Username
Admin
Password
Login
Remember Me
Warning:
Three unsuccessful login attempts will lock your account.
Forgot your password? Click here
Enter the **Client ID** for your site
Type "**Admin**"
Enter your **Registration Code** (if 1st time logging in) or established password. *Immediately upon your first login you will be prompted to change your password.*
Click **Login** button

Creating Return Templates In TWO

- Click on **Return Templates**
- Then on New





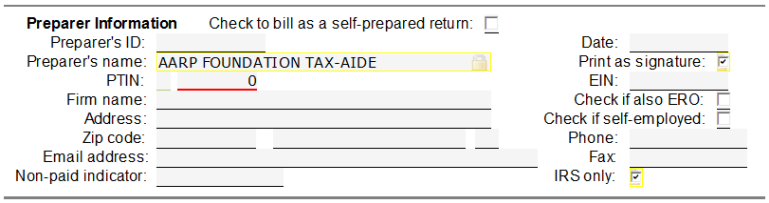
- Enter a name for the return template in the Name box
- Enter a detailed description in the Description Box.
- If you want this to be the default template, select the **Make Default** box
- If you choose to base the template on an existing template, select the template from the "The new return new return template will be based on:" drop down list
- Click **Ok**
- Click to edit your new template
- ***Note***: You cannot modify the pre-set Default template (s)
- The yellow background indicates that you are in the Return Templates mode and any

changes made to this template will only affect newly created returns

- You can now make your default entries on the *Main Info* sheet and *8879*
- Use the **F3** key or **Ctrl+Spacebar** key for toggling "Red" on and off in a field

Main Information Sheet Entries

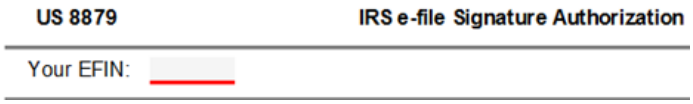
- Scroll down to the bottom of the page to the Preparer Information section
- Entries:
  - **Print as signature** - checked
  - **IRS only** - checked
  - **Preparer's name** - enter "AARP FOUNDATION TAX-AIDE"
  - **PTIN**- enter the eight-digit SIDN for your site
    - The letter "S" will automatically be entered in the left hand box
    - If the computer is to be used at more than one site create a template for each one
  - **Firm name** - enter your site's name as shown on the confirmation sheet that came with the TaxWise software AND the SIDN (Example: Anywhere Senior Center S70050000)
  - **Address** - enter the site's physical address.
  - **Zip code**- enter either the 5 or 5 + 4 digit code for the site
    - If the auto-filled city information is incorrect, enter the correct information
  - **Phone** - enter the site's phone number
    - DO NOT use your phone number as the entry in this box prints out on the client's 1040 page 2 return



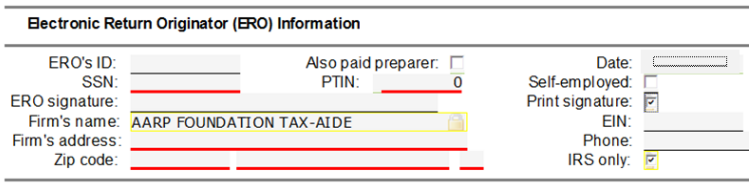
- **Lock these entries** by using **Ctrl+L** while the field is focused (notice yellow and padlock around the locked field) - **this is VERY important**
- All the other fields should be blank

Form 8879 Entries

- At the top of the form
- **Your EFIN** - enter the six-digit EFIN associated with the SIDN that was entered on the Main Information Page and **lock the entry**



- At the bottom of the form in the Electronic Return Originator (ERO) Information section
- **Date**: field entry will automatically be entered when a return is started
- **Print as signature**: - checked
- **IRS only**: - checked
- **PTIN** field - enter your site's unique eight digits SIDN.
  - The letter "S" will automatically be entered in the left hand box



- **Firm name** field, enter your site's name as shown on the confirmation sheet that came with the TaxWise software AND the SIDN (Example: Anywhere Senior Center S70050000)
- **Firm Address** field, enter the site's physical address.
- **Zip code** field, enter either the 5 or 5 + 4 digit code for the site
  - If the auto-filled city information is incorrect, enter the correct information
- **Phone** field, enter the site's phone number
- **Lock the entries**
- All the other boxes should be blank
- Turn the red off in any boxes that are still red using the **F3** key

GLOSSARY

ACA	Patient Protection and Affordable Care Act
ACTC	Additional child tax credit
AGI	Adjusted gross income
AMT	Alternative minimum tax
AOC	American opportunity credit, formerly HOPE education credit
APTC	Advance premium tax credit (ACA)
CASDI	California state disability insurance
CCH	Commerce Clearing House- publisher of TaxWise
COD/CODI	Cancellation of debt / Cancellation of debt income
CTC	Child tax credit
DC	District Coordinator (the individual responsible for all sites in a district)
DHS	Department of Homeland Security
EFIN	Electronic Filing Identification Number (a unique number assigned by the IRS to identify each electronic filing site, which is used as the electronic "address" for the site)
EIC / EITC	Earned income credit
EIN / FEIN	Employer (Tax) Identification Number (the federal ID number for processing employer payroll information)
ERO	Electronic Return Originator
HoH	Head of household filing status
HSA	Health savings account
ITIN	Individual taxpayer identification number
L	Line
LC	Local Coordinator (the individual responsible for one or more tax preparation sites)
LTC	Long-term care
MAGI	Modified adjusted gross income
MAGI	For 8965 purposes: AGI + excluded foreign earned income + exempt interest income
MAGI	For 8962 purposes: AGI + excluded foreign earned income + exempt interest income + nontaxable SS income (but not SSI or SSDI)
MEC	Minimum essential coverage (for ACA)
MFJ	Married filing joint filing status
MFS	Married filing separately filing status
NTTC	National Tax Training Committee
OPM	Office of Personnel Management (the federal agency which pays government pensions)
PAB	Private activity bond
POA	Power of attorney
PSO	Public safety officer
PTC	Premium tax credit (ACA)
QW	Qualifying widow/er filing status
RDP	Registered domestic partner
RTN	Routing transit number (9-digit number assigned by the Federal Reserve to identify each bank)
S	Single filing status
SC	State Coordinator (the individual responsible for all districts in the sub state)
SDI	Same as CASDI
SIDN	Site Identification Number (A unique seven digit number starting with "S" assigned to each physical counseling site operated by Tax-Aide)
SPEC	The IRS Stakeholder Partnerships Education and Communication office
SRP / ISRP	Individual shared responsibility payment (for ACA)
SS / SSN	Social security / Social security number
TC	District Technology Coordinator
TWO	TaxWise Online
VI / VP / VPDI	Voluntary Insurance / Voluntary Payment / Voluntary Payment Disability Insurance NONE is deductible as a state tax

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CALCULATION OF EXPENSES FOR EDUCATION CREDITS AND TAXABLE SCHOLARSHIPS

1) Determine if student received loans as well as grants, or otherwise paid his own money to the school. If so, the student determines which monies are used for which expenses. Normally, it is a tax advantage to use his loans or own money for the qualifying expenses and pay tax on the grants that are then used for non-qualifying expenses. Most students can get a copy of their school statement online. This will tell you exactly what monies the school had received when different expenses were paid. If the student cannot get a copy of his statement and doesn't know how much his loans were, then use Column C.

2) Use Columns A or B to calculate the maximum allowable expenses to enter for the credit and the resulting taxable scholarship. Then, use Column C to determine the minimum allowable expenses to enter for the credit or adjustment and the resulting taxable scholarship. Determine which is better for the taxpayer and use that. If it is not clear whether Lifetime Credit or Tuition & Fees adjustment is better, complete the return each way and compare them.

Education Expense and Taxable Scholarship Calculator	A) American Opportunity Credit (Max first 4 post-secondary tax years)	B) Lifetime Learning Credit (If TP's marginal tax rate is more than 20%, use column C.)	C) Education Credits & Tuition and Fees Adjustment Using Grants for Qualifying Expenses
Tuition & fees			Tuition & fees
Books	+		Books (AmOppCr only) +
Course materials	+	Include in fees any books & course material that you are required to buy from the school.	Course materials (AmOppCr only) +
Total qualifying expenses	= A	= A	Total = A
Grants restricted to qualifying expenses	- B	- B	Less total grant amount - B
Expenses less restricted grants (A - B)	= C	C	Net education expense = C
			If net education expense (C) is a positive number, enter it as education expenses on Wkt2 for tuition and fees or on Form 8863 for education credits.
Taxpayer's money plus gifts			
Loans	+	+	
Total own money	= D	= D	
Limit on expenses for the credit	4,000 E	10,000 E	If C is negative, enter it as a positive ±
Expense to claim for Education Credit (no more than the smallest of C, D or E)	F	F	Less books not used above -
			Taxable grants (not less than zero) =
Unrestricted grants	G	G	
Less expenses not used for Education Credit nor paid by restricted grants (C - F)	- H	- H	The taxable portion of a grant is taxable to the student even if someone else is claiming the credit.
Taxable grants (G - H)	=	=	

For either credit, qualifying expenses paid by others (e.g. grandparents) are deemed paid by the student and can be used by the taxpayer.
For the Tuition and Fees adjustment, qualifying expenses must be paid by the taxpayer. Expenses paid by others are deemed paid by the student and are eligible expenses only if the student is the taxpayer (and cannot be claimed as a dependent by anyone else).

CALIFORNIA INCOME TAX INTERVIEW WORKSHEET

(Use in conjunction with Federal Form 13614-C) (9/18/13)

Name:	**Date**
County:	**Married ____* Single ____**

	To be completed by all Taxpayers	**Yes**	**No**	**Not sure**
1.	Were you (and your spouse, if filing a joint return) a California resident for the entire year 2014?			
2.	Was any of your income taxed by another state or local government or did you pay taxes to a foreign country?			
3.	Do you (or your spouse if filing a joint return) have a filing responsibility in another state? (for example, you have a rental property or you worked in another state during the year)			
4.	Did you or your spouse receive any Indian Tribal Income during the tax year? (If no, skip to Q.5)			
	Did you reside on Indian tribal land?			
	Did you work on Indian tribal land?			
5.	Did you take any IRA withdrawals and previously made any contributions to your IRA while a legal resident of California that were not fully deductible in California (generally prior to 1987)?			
	Do you have records of those contributions that were not deducted?			
6.	Did you receive a reward from a crime hotline? *(CA (540) Line 21 B)*			
7.	Did you pay rent for your home in California for at least 6 months during the tax year? *(Rent Wkt)*			
8.	If you are the noncustodial parent of a child, did you maintain your home as the main home for a child that lived with you for at least 146 days but less than 219 days? *(credit code 170)*			
9.	If over 65 years of age and you have qualified to file as head of household in 2012 or 2013, did your qualifying dependent die in either 2012 or 2013? (credit code 163)			
10.	If you sold real estate during the tax year, did you receive form CA 593?			
11.	Did you claim a California credit for a new home purchase? If so, what year _____			
12.	Did you purchase taxable property for use in California without paying sales tax at the time of purchase? (such as purchases by phone, over the internet, by mail or in person) (line 95)			
13.	Would you like to make a voluntary contribution to one or more special fund? *(Line 110)*			

	Complete only if you want to file Married – Filing Separately*	**Yes**	**No**	**Not sure**
14.	Did you live apart the entire year AND do you have no intention to reconcile			
15.	Are any of your funds commingled			
16.	Were you a full year resident of California			
17.	Name of spouse (print):			
18.	Spouse's Social Security Number:			
19.	Is spouse a US Citizen, National or Resident?			
20.	Is your Spouse taking the standard deduction?			
21.	Spouse's address (if known) (print):			
22.	If you are married filing separately, did you pay for the support of a dependent parent? (credit code 173)			

*Local Coordinator or Quality Reviewer must approve Married Filing Separately status